FEDERAL GOVERNMENT AND SMALL BUSINESS

HEARING

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT
AND THE ECONOMY

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

WARREN, MI, MAY 19, 1986

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FEDERAL GOVERNMENT AND SMALL BUSINESS

MONDAY, MAY 19, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND THE ECONOMY,
COMMITTEE ON SMALL BUSINESS,
Warren, MI.

The subcommittee met, pursuant to notice, at 2:05 p.m., in the John Lewis Student Center, Macomb County Community College, Warren, MI, Hon. Nicholas Mavroules (chairman of the subcommittee) presiding.

Mr. MAVROULES. The hearing will now come to order.

In deference to my colleague and friend, Dennis Hertel, I am going to ask him to make an opening statement first.

OPENING STATEMENT OF HON. DENNIS M. HERTEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. HERTEL. Thank you, Mr. Chairman.

First of all, I want to welcome the chairman and thank him for taking the time to come to our hearing here today.

I will tell all of you a little bit about him. He is one of the senior members of the Armed Services Committee, in addition to serving as chairman of the Small Business Committee on General Oversight and the Economy. He sits on the Procurement Committee of the Armed Services Committee, where all the decisions are made as to the purchases and plans for the future for all of the armed services. Most importantly, Chairman Mavroules now chairs the Special Panel on Waste, Fraud, and Abuse in the Pentagon. What they are doing is looking at the entire area of procurement and everything that the Department of Defense does. They will be streamlining and changing procedures. They will be going from nuts and bolts all the way up to missiles and the most expensive systems that we use in the defense of this country. They will be looking at organization. And, in fact, the recommendations of that panel—I serve on it, thanks to the chairman—will be made in this next month.

In that light, I can say that the chairman, as chairman of the Special Armed Services Panel on Procurement, is going to have the most influence of anyone in my lifetime as to the changes of doing business in the Pentagon, and what it will mean in the future to the defense of this country and to the abilities of business to be able to compete in a freer atmosphere than ever before.

It is proper that we meet here at Macomb Community College today. I want to thank Dr. Lorenzo for hosting us once again. It is

always great to have such beautiful facilities. And I thank him for coming today. What we have seen is such enormous growth with Macomb Community College not only leading the State, but leading the Nation in innovation, working with business, and providing training and experience for jobs.

It is clear that all of us in this room know that small business is the energy of the economy. That is where more jobs are created than any other aspect of the economy. It is wonderful when big business makes big decisions at great jobs. But altogether, the small businesses in this country have always been the leader in growth and the leader in employment.

We are fortunate in Michigan, and especially in Macomb County, to see more and more Federal contracts awarded to small businesses in our environs. Why is that? Because we have been able, I think, to work with business, to listen to their problems, to try to improve things and to provide the information so that they can compete as effectively as other businesses across the country. We know that we have the experienced personnel, the well-trained personnel, the dedicated people and the leadership here in Michigan to do that.

I just want to say that that is the real purpose of this hearing today: To hear your concerns about what Government should be doing, what Government should not be doing, what Government can do better; to hear your needs, to hear your ideas, and to hear about your problems.

So I thank the chairman again for coming today and taking his time. It is a message that we will take back to the full Committee on Small Business after this hearing. They will have all information from this record.

Mr. MAVROULES. Dennis, thank you very much for your very kind remarks. We are going to make sure we excerpt that from the record so I can take it back home.

Mr. HERTEL. Is that selling Boston, too?

Mr. MAVROULES. You bet it does. Thank you, Dennis. I really appreciate it.

And let me also thank President Lorenzo for his cooperation and assistance in putting this hearing together.

I am going to ask, also, that those of you who might be testifying if you could condense your written statements. And we will include all of your statements in the record, without any objection.

I want to also insert into the record a letter sent to us by C&M Pharmacal, Inc. They have sent us a letter signed by Mr. John LaLonde. That will be part of the record without objection.

[Letter from C&M Pharmacal follows:]

C & M Pharmacal, Inc.
dermatologicals of distinction - since 1943
1519 E. EIGHT MILE RD • HAZEL PARK, MICHIGAN 48030-2696
Area Code 313
548-7846

acnesarb
acnotex
aquaderm
bentonite paste for eeg
colladerm
cortin 1% cream
dermidol
drytergent
drytex
duplex
duplex t
finac
garderm
hi-cor-0.5
hi-cor-1.0
hi-cor-2.5
hydropel
neomark
pod-ben-25
safeskin
schamberg's lotion
seale's lotion – mod.
sebisol
silicone oint. no. 2
siliderm
slt lotion
sofenol 5
soltex
solumol
sulfoil
ta (triamcinolone acetonide) creams
thirac
theracort
thiocap
veralon
verr-canth
verrex
verruso!

April 28, 1986

Dear Congressman Hertel,

I spoke with Mrs Bricker of your office last week and was told that if I write a letter outlining any difficulties we have had selling to the Federal Government, these problems will be addressed at your field hearing on Small Business and the Federal Government on May 19, 1986.

We have two problems with the DOD:

1) We specialize in short-run topical pharmaceutical runs. Presently there are four or five products we provide for DHHS, hand lotions, calamine lotion, etc. Our relationship with DHHS is excellent. They send us Requests for Quotation; we fill them out; we get the contract. But DOD will not put us on their bid list; we receive no Requests for Quotation. When we ask why not, they tell us their computer isn't working properly. This has been going on for over 5 years.

They have recommended that we subscribe to Commerce Business Daily which lists all contracts over $10,000. But our specialty is the short-run contract, the contracts for under $10,000. Also, we get business on very low mark-ups, so subscribing to this publication would raise our price.

Can anything be done to get us on DOD bidder's list?

2. We have two products (wart removers) that are purchased by a number of military and VA hospitals. We have a competitor (in California) that makes virtually the same products at a higher price. We are aware that most government hospitals are purchasing our competitor's products and that we are only getting orders from the few institutions whose buyers have discovered us. We would like to get a mailing list of the pharmaceutical purchasing agents for government hospitals so we can let them know about lower prices. So far we have been unable to do so. We have a list of the hospitals, but without the specific office or person's name we

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bentonite paste for eeg
coiladerm
cortin 1% cream
dermidol
drytergent
drytex
duplex
duplex t
finac
garderm
hi-cor-0.5
hi-cor-1.0
hi-cor-2.5
hydropel
neomark
pod-ben-25
safeskin
schamberg's lotion
seale's lotion – mod.
sebisol
silicone oint. no. 2
siliderm
slt lotion
sofenol 5
soltex
solumol
sulfoil
ta (triamcinolone acetonide) creams
therac
theracort
thiocap
veralon
verr-centh
verrex
verrusol

have found that our message gets lost in the institution.

As you can see both our problems are very simple, yet we have had no luck in piercing the bureaucratic veil. Also please note that solving these difficulties for us would not only help us but the federal government as well.

We look forward to your help.

I plan to attend the meeting on May 19 and look forward to meeting with you or whoever you find to help us. If you can get us some assistance before then, I would be glad to hear from you earlier.

Thank you for this opportunity.

Sincerely,

John LaLonde,
Vice President & Gen'l Mgr

/o

OPENING STATEMENT OF CHAIRMAN MAVROULES

Mr. MAVROULES. Dennis, let me thank you again for your invitation to be with you. I can say this about my colleague, Dennis Hertel. We work very closely together. He is of great assistance to me and my task force on Procurement and Acquisition Reform. Hopefully, within 3 or 4 weeks, we will be coming out with some very important legislation to once and for all put to sleep some of these horror stories coming out of the Pentagon. It is one thing to be very strong supporters of national security, as we both are. We believe in a strong security for our country and, also, for our friends throughout the free world. But by the same token, I think the American public, 83 percent of the people in a recent poll, demand that they get a dollar's worth for every dollar spent. We hope to do that, to restructure some of the policies of the Pentagon for the good of the country.

We have called this hearing today to review the role of the small business sector in our economy and how our Government can better assist small firms. I would like to thank my good friend Dennis, as I have already, for his interest in this topic, particularly as it affects the small businesses in Michigan.

This hearing is particularly timely since today is the start of Small Business Week of 1986. As President Reagan stated when announcing this special week:

> The business of America begins with small business, millions of men and women, bold and imaginative starters, seizing opportunities and providing jobs to help to ensure that our Nation will remain economically strong and certainly free.

Today, small businesses employ over 58 percent of all private sector employees—an amazing figure. Small firms produce over half of the Nation's gross national product. Perhaps more importantly, a vast majority of all net new jobs and innovations in the United States are being created by our smaller enterprises. Small businesses are deeply involved in their communities, providing employment and services, and contributing to the overall well being of an area.

During the past year, thousands of small business owners have been meeting at small business conferences throughout most of the 50 States in preparation for this August's White House Conference on Small Business. The recommendations presented by the delegates to this national conference will help us in Congress to formulate a small business agenda designed to make sure our small firms have a definite role to play in advancing the Nation's prosperity.

However, I must take this opportunity to express my concern over the recent actions of the new Acting Administrator for the Small Business Administration. Mr. Charles Heatherly has stated that he fully supports the President's latest proposal to transfer some of the SBA's responsibilities to the Department of Commerce, while eliminating many other functions. Keep in mind that during the last 5 years we on the Small Business Committee reduced by over $2½ million, the budgetary process that we work under. And this gentleman wants to get rid of the SBA. He is actively pursuing this agenda, although the Congress has clearly shown its support for an independent SBA. And I am afraid that his actions can undermine the effectiveness of the agency.

As Members of Congress, our mission is not to guarantee the success of every small business venture. But, rather, we seek to ensure that our small businesses are playing on a level field, receiving the same opportunities and Government support as large businesses do today. An independent SBA, certainly in my judgment, and I hope in yours, has a definite role to play in this arena. Therefore, I believe that the essential assistance and credit avenues provided by the Small Business Administration must remain available to America's small business person. That is why we are here today.

We are going to have three panels today. If each of you will give your opening statement, we will not interrupt you unless it is something very important. Hopefully, you can condense your remarks, and then you will be open for questions.

Therefore, on panel 1, I would invite Mr. James N. Thomson, Acting Regional Administrator, Region V, U.S. Small Business Administration, from Chicago, IL; Mr Richard Francis, president, Small Business Association of Michigan, Kalamazoo, MI; Ms. Sally Rushton, procurement specialist, Michigan Office of Federal Procurement, Lansing, MI; Mr. Norman Schlafmann, director, Michigan Small Business Development Center, Wayne State University, Detroit, MI.

Let me welcome you, ladies and gentlemen. And, Mr. Thomson, if you would proceed with your testimony, we would appreciate it.

TESTIMONY OF JAMES N. THOMSON, ACTING REGIONAL ADMINISTRATOR, REGION V, SMALL BUSINESS ADMINISTRATION, CHICAGO, IL

Mr. THOMSON. Mr. Chairman and members of the subcommittee, I am pleased to be here today to represent Mr. Charles L. Heatherly, Acting Administrator of the Small Business Administration, who unfortunately was not able to accept your kind invitation to testify personally.

If we reflect back on our own heritage, entrepreneurship has been a basic part of the American life and the American economy. Our country was founded by a rebellious band of shopkeepers and artisans.

Today, we are experiencing a rediscovery of what entrepreneurs mean to our society. We are discovering small businesses account for two out of every three new jobs created, provide job training to new workers, employ the young, the women, and the elderly.

We are rediscovering that the economic health of America depends on the health of small business and its entrepreneurs. The numbers tell a compelling story. And I believe, Mr. Chairman, you have already addressed pretty much those areas along the way.

And, of course, along the way have come new industries and new products. Two out of every three new ones are small business generated, everything from erasable memory computer chips to fast-growing regional airlines.

Why? Why are more men and women taking the risk of becoming their own bosses? Why are more and more business school graduates forsaking low-risk job opportunities with large firms and starting their own enterprises or joining small firms? Why are so

many big corporate executives dropping out to become independent entrepreneurs?

One factor is the continuing independent spirit that has lived in this country from the beginning. Being your own boss has always been an American dream.

Small business affords the personal and physical freedoms not usually found with corporations.

Government can create an economic climate that stimulates entrepreneurship: to encourage people to start their own businesses; and to encourage the creation of new ideas, new products, and new technologies.

I take pride in the fact that the sound economic policies of President Reagan and his administration have given America just such an economic climate. You know the story: Inflation, once out of control, is now virtually nonexistent; unnecessary and burdensome Government regulation and paperwork has been cut back drastically; the prime interest rate, which rose to 21½ percent right before Ronald Reagan took office, has been pared back to 8½ percent, and may fall even further; personal tax rates have been cut back substantially, thanks to President Reagan, allowing all Americans to keep more of what they earn. These changes alone have resulted in an almost unprecedented supply of venture capital to help existing and emerging small companies. The SBA, of course, has played a part in this revitalization.

Here in Michigan, for example, we were able in the last year to assist in the placement of Federal contracts totaling more than $406 million in the hands of this State's small business persons.

We were also able to assist a myriad of other entrepreneurs through our business development, innovation and research, financing, and surety bond programs.

Business entrepreneurship is on the move here and throughout the Nation. But problems still exist. One particular one is the massive Federal Government deficit.

For those of us in Government, our biggest obligation to small business and all America is to get Government's house in order, to fight the deficit monster, and to teach Government to live within its means, just like small businessmen and women have to do every day.

We at SBA are dedicated to helping solve the deficit problem. As a part of the President's deficit reduction plan, embodied in his 1987 budget proposal, he took a long hard look at Federal credit programs, including the SBA loan programs. President Reagan came to the conclusion that these loan programs can no longer be justified in light of our economic circumstances and budget realities.

I would like to take the last few remaining minutes to give you a brief capsule on how the President's proposal affects SBA.

Some think the President is proposing to eliminate SBA. Others charge that our intention is to dismantle it. This is not true.

The President is proposing to continue the really important SBA programs under a revitalized SBA within the Commerce Department. An Undersecretary of Commerce for the SBA will have an even stronger voice in the policy process than we have had in the past.

The President proposes to eliminate the agency's credit activities, as well as transfer SBA's loan portfolio to the Treasury Department for collection and liquidation. The total proposal would result in $1.4 billion savings in fiscal year 1987, and $5.2 billion over the next 3 years. While the loan programs will be eliminated, essential and vital programs will remain intact.

Eliminating SBA's credit activities would have a minimal affect on the small business community. As it is, less than two-tenths of 1 percent of the Nation's small business community receives SBA lending assistance.

Studies by the SBA's Office of Economic Research in the Office of Advocacy show that, in fiscal year 1985, lending by banks to small business increased by 8.6 percent. Lending by banks to large businesses increased by only eight-tenths of 1 percent.

What are the problems that really concern businessmen and women? Payroll taxes, workmen's compensation, Federal and State income taxes, interest rates, and excess paperwork and regulations.

Let me emphasize the functions and activities in SBA that will continue under Commerce, activities that do address the needs of small business. The Office of Advocacy will continue to be headed by a Presidentially appointed chief counsel. SBA's procurement program will also continue. Set-aside provisions of the Small Business Act, provisions which SBA administers, indicates that small businesses in fiscal year 1985 received about $19.5 billion in Federal work. SBA's Breakout Procurement Center representatives, stationed at key military bases, have saved millions of dollars by helping direct spare parts contracts to small companies. They perform a crucial function for an increasing number of small firms wishing to do business with the Federal Government.

During fiscal year 1985, the Breakout Program saved the Government $147.8 million. When the program is fully operational this year, we anticipate annual savings of $340 million.

Total dollars for Federal procurement in the State of Michigan for fiscal year 1985 was just over $3 billion. The small business share of this was $430.7 million, or 15 percent.

The President proposes to continue the most effective and valuable portions of SBA's management assistance efforts: The SCORE and ACE Programs—SCORE, the Service Corps of Retired Executives—and ACE, the Active Corps of Executives—are programs which offer wide benefits to small businesses, at no additional expense to taxpayers. It is estimated that during fiscal year 1985, 6,600 people received business counseling under this program in the State of Michigan.

Also continuing would be the Innovation and Research Program, under which 12 Federal agencies must direct an increasing share of their research and development contracts to small high technology companies. To date, such small firms have received about $400 million in R&D through the program, and it is expected that another $400 million will go to similar high technology firms this year.

Under this program, Michigan firms received the following assistance:

In fiscal year 1984, in phase I, there were 21 awards, just over $1,050,000, phase II, 5 awards of $2 million, a total of 26 awards in fiscal year 1984 of just over $3 million. In fiscal year 1985, 27

awards in phase I, 2 awards in phase II, total of 29 awards. We do not have dollars available as yet for fiscal year 1985.

SBA's program to direct special assistance to small firms owned by socially and economically disadvantaged individuals will also continue. The 8(a) program in fiscal year 1985 directed approximately $3 billion in Federal work to such companies. Under the President's proposal, the 8(a) program will continue as part of Commerce's Minority Business Development Agency.

Seventy-three contracts were awarded during fiscal year 1985 to 24 Michigan 8(a) firms, for a total of $19,273,167.

Thanks to President Reagan, the limping seventies have given way to the roaring eighties, the decade of the entrepreneur, and the American dream of owning your own business, surviving and prospering is alive and well. If Government can get its house in order by tightening its belt through proposals such as the one affecting SBA, then we will have accomplished our goal of a Government that exists for the people, not one that exists at the expense of the people.

Thank you very much. And may I add, happy Small Business Week. And remember the theme this year, small business is big in the USA.

Mr. MAVROULES. Thank you very much, Mr. Thomson, for your very enlightening testimony. We will have questions for you later on, especially on SBIR. I like what you have to say about that.

Mr. Francis, if you would proceed with your testimony, please?

TESTIMONY OF RICHARD FRANCIS, PRESIDENT, SMALL BUSINESS ASSOCIATION OF MICHIGAN, KALAMAZOO, MI

Mr. FRANCIS. Mr. Chairman, Congressman Hertel, members of the staff, I am very pleased that you are holding this hearing here today in Michigan because, as president of the Small Business Association of Michigan, I see your activities as very important to our survival and growth.

Let me give you a little bit of my background in testifying today.

First, I am president of the Small Business Association of Michigan, which is a statewide organization, exclusively representing small businesses. Its roots were in the White House Conference of 1980, the 1981 Michigan State-Wide Conference of Small Business, and the 1986 White House Conference. While I am a Republican, I am Senator Riegle's appointee to the White House Conference. I have worked with him many times in testifying before the Senate Banking Committee when I was previously the banking commissioner for the State of Michigan. Additionally, I am vice chairman of the Michigan Technology Council.

Mr. MAVROULES. I thought everybody in Michigan was a Democrat.

Mr. FRANCIS. I'll claim that heritage, I really will. And I claim a good working relationship with people in both parties, and I'm proud of that, to be honest with you; I really am.

Additionally, as vice chair of the Michigan Technology Council, I am involved in the emergence of technology in Michigan and the issues affecting it. And, finally, in working with Congressman Hertel, Congressman Pursell, and Senator Levin, I served on the

Detroit Chamber's Military Procurement Committee. And we set up what, in my opinion, was the model for the country in training in military procurement. Unfortunately, I have to say it has been abandoned since that point of time because of some reasons we may want to explore. But I have had a great deal of military procurement, as well as representing some clients in the process who, as small businesses, have suffered a great deal of frustration.

I would say you gave my opening statement. And my opening statement was the importance of the role of small business and job creation, the importance of leverage of small business, and technological developments.

You know as well as I do that Washington is often characterized as that 69 square miles surrounded by reality. This is the world of reality. And I want to tell you that, sometimes, what I hear coming out of Washington does not match what goes on in our day-to-day world here.

Very frankly, I am not sure—I am not sure that Washington, at both a congressional and an administrational level means what you said in your opening statement, namely, that small business is the engine that drives the economy and that small business is the technological leader. And I would have to tell you, as I say that, Heatherly does not understand it. There is not an ounce in anything that he says—and I work with small business people day in and day out—that suggests that he in any way understands what we're about.

Mr. MAVROULES. We're going to have a hell of a question and answer period.

Mr. FRANCIS. I believe we are. I believe we are, and I want to open up with that.

I guess I will put it this way. If you said to a company, what is our major job; and you defined that as creating jobs. And you said, well, who has done it best; the small business division. How do we reward them? Well, we'll transfer them, demote them, and put them under big business. A fine reward. That's what we see. And I don't think that in any sense it is a reward to us or a recognition of the role we have to play. And I must say that I like your word "independent."

I had an experience in the creation of the Jobs Commission here in Michigan. And I will make this kind of bipartisan. I will tell you Governor Blanchard's very brilliant response to it.

We created a Jobs Commission, headed up by Iaccoca and Frazier. And how many small business people do you think we had on it? Zero.

Well, we went to Governor Blanchard and said, look, we have a problem. So he appointed an entrepreneurial commission. If you look at the record, it has had a much better record at addressing issues, getting programs going than has that other commission. I can't tell you one thing that they have done.

What I am suggesting to you is that small business is alive and active. If you subordinate it, or do not make it truly a part of the system, then we are left out. My comments at that point in time, when they said "We'll take care of you," I said, "I don't want to be kept." And small business doesn't want to be kept. And I get that sense of feeling about what is going on now here in the transfer.

I, at this point, would also express my extreme dismay at the actions of the regional administrator who is sitting to my right. What did he do? He came to Michigan to speak to the media. He did not speak to the constituency and say, "Here's where I am. Here is where my programs are going to serve you." He spoke to the media. I still do not understand at all what he said, how it is going to help us. And there has been not one ounce of energy expended in communicating to the Michigan small business community how any of this program will help us. It may, but I sure have not been informed yet as to how it will.

Let me give you some of my thoughts, with that as a preface, on things that I think you can do programmatically.

(1) Develop a policy statement from a national level that truly addresses the role of small business in technology and in job creation; and not make it that tired, ho-hum statement that has so often said, "You are the engine that drives the economy." And if we make that a policy, let us center what we do around that.

(2) In regard to the White House Conference, which is coming up this summer—and I would point out to you and to all your colleagues in Congress, you have congressional appointees. Are they going to a meeting this summer with issues predisposed on the part of the White House? I sure hope that they are not. I sure hope that the issue of SBA transfer is not settled before we go to Washington. I can tell you that just last week in our Michigan delegation—and I am chair of the White House Survival Committee—they wanted to pass a censure motion on Heatherly. I suggested that we not, but that we try to communicate fully and fairly as to what our needs are. I don't believe in that. But I can tell you that the lid will blow off Washington this summer if the issue of Heatherly's appointment and a clear open mind in the survival of SBA isn't present.

That is the feeling. And I must say that that is a bipartisan feeling. It is a spontaneous feeling on the part of small business throughout the State of Michigan.

So in this recommendation, as you approach the White House Conference and you ask the administration what their views are, I suggest that you particularly ask them about their views on whether or not they even have an open mind concerning the survival of SBA as an independent agency; so that the delegates that you, as Members of Congress, have appointed can approach that conference with that thought in mind.

Next, I would suggest, in view of the kinds of statements that are still being put out by Heatherly—and I hope that after a meeting I had in the White House just a couple of weeks ago with the director of political affairs that we at least have a chance to discuss this. And we read headlines like we have in last week's Business Week, "Reagan's Hit Man at the SBA," and the kinds of statements he makes in there, that that thing will be quieted because I can tell you, insofar as the small business community and its effective participation in programs, we are in a survival mode. We are not in a constructive, positive mode as we should be. This, I think, aside from the James Watt affair, which I think was very destructive of constituencies, is very destructive. And there are not two sides to this one. There is only the small business side. I do not understand the other side.

Next, I do not see any sense of understanding of the credit needs of small businesses in the suggestions of the party who just testified before me. The fact that banks are making more loans is totally irrelevant to the credit issue needs of small business.

As former banking commissioner, I can tell you that the pressure is on banks not to make long-term, fixed-rate loans. They don't make them because of the asset and liability management problems they have. Banks do not make the kinds of loans that small business needs. To my knowledge, the only place that that kind of credit is available at this point in time is through the Small Business Administration's 7(a) and 503 programs. That is the only place that it is available.

I guess I would say as an aside that I support the elimination of direct lending. But I think at this point in time some program is necessary for the longer term credit availability of small business.

I would be open, and I am open in a reasonable way, to the studying of a privatization like that as to Fannie Mae. I do not think they are parallel, but if that is a possibility I am open to an exploration of that.

So I think from the standpoint of SBA coming forward with these rather generalized statements that are in no way irrelevant to the needs of the small business in Michigan, that before they proceed in any sense with that disbanding, that they come forward and express an understanding of the credit needs of small business.

I am also involved in the investment banking world, and I can tell you that there is a great deception in the statement made by my predecessor on this panel that there are all kinds of venture capital available. It is not true. It just is not true. In fact, we are now involved in setting up in Michigan what is called BIDCO, Business Industrial Co. legislation, modeled after what is happening in California. And that is the model in the country. This is the type of lending that would fit in between venture capital world and the banking world, and the type of credit that SBA is essential in the foundation for. I suggest to you that you look at the BIDCO legislation in California, and you will find out that the BIDCO lenders are putting through a high percentage of the loans that are going through SBA because the banks are not oriented to doing that. The banks, in fact, are sending their customers to the BIDCO for lending that is going to SBA and those loans, in turn, are going into the secondary market. So there is a clear need. The mechanism is there. And by way of recommendation—and I had lunch with the Comptroller of the Currency just a couple of weeks ago—I recommended to him that you consider—and I think it would be appropriate for your agenda, and it is going to be one of our recommendations at the White House Conference—that we have national BIDCO's.

The rationale for a national BIDCO is this: SBA will not deal with a lender unless they are licensed by a banking agency. And we have set up a mechanism in Michigan, as is in California, for the licensing of the people to ensure the integrity, to have examinations and ability for cease and desist orders, to get management out, and to bring a sense of confidence to that. So I guess I would have to say there is another reason, I think, for the continued existence of the lending programs of the Small Business Administra-

tion; and that the appropriate mechanism for you, as a committee, to explore is the California model—now I think the Michigan model of BIDCO, which is even better than the California model of BIDCO's.

Another issue that is emerging and that I think needs real focus is the impact of liability insurance on small business. And very particularly—and I am involved now in developing a study of the impact on job creation. I think one of the most significant business events that has happened in the history of American business very subtly happened a week ago. You may have read about it in the Detroit Free Press. And that was when Ford Motor disclosed to the SEC and to the public the fact that it is going bare on its product liability insurance.

What that means—and I know nothing from Ford Motor. As a lawyer and a person involved in those kinds of words, how I interpret that is that the impact of product liability is so significant on the earnings statement, or potentially significant, that it is a matter of necessary public disclosure under the securities laws.

I can tell you that it is more serious for small businesses, and I do not see anybody focusing on the problem. And the essential problem is not how much the lawyers make or how much insurance companies make; it is the claims curve, the incidents, the claims cost. And when you look at it in the context of these companies, that—those are bare figures. There is no insurance company involvement in that. In other words, we look at the insurance company as the scapegoat. When you look at this, you are looking at it as a bare claims cost factor without the scapegoats of insurance companies, lawyers, or all those other people we want to look to.

So I would say to you that liability insurance problems and liability is a major problem affecting both job creation and technology development. I am aware of cases where new technology will not be developed because people do not want to take that quantum leap out of concern for the uncertainty of the development of new technology. In our battle for leadership in technology, I think there is an absolute paralysis, as I talk to a number of people. And that is a very real matter of issue for you.

And, finally, before I get into a few issues under procurement, I would say to you that my recommendation is keep SBA independent. I do not know of any place where an agency is sublimated to a major industry and, in fact, it comes up with a stronger voice. I would be open to listen to that. I think the people who are trying to put that out do not understand on a long run how those things operate. I would give any administration the advantage of doubt that maybe they would operate that way. But we are looking at this on a long-term basis, and, very frankly, I do not think it will operate that way on a short-term basis.

So if we are looking at the stability in the long-term small business, it makes no sense to the confidence of small business; in fact, it is a slap in the face of small business to suggest that that is necessary.

And I guess a concluding thought on that is something you are aware of. We have already taken the giant cuts and probably the biggest cuts of any administrative agency in Washington. We are willing and open to anything else that is reasonable in the context

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of the budget. And I suggest to you, with that attitude and approach to small business, it is not a budgetary consideration at all, and I would not approach it that way. It is one of understanding what is the best way to affect the emergence, and the development, and the strength, and the voice of small business. I think the only way it can possibly be is through an independent voice.

Now, let me move into procurement, and I will give you a few more specific thoughts.

One is that I think an independent voice, again, is important, from the standpoint that if you are dealing with your prime contractors, if you are dealing with these agencies, these procurement agencies which are very large, I would be concerned in the long run that there would be a sublimation of this independent function. So, from a procurement standpoint, I think that is very important.

Second, from the standpoint and experience of my clients, I think we need an independent settlement, dispute process. And by that I mean—and from my own experience—if a small business is forced to go through the very expensive adversarial dispute settlement process rather than an arbitration to get to the facts, it is the generals versus the small business. And it could be, as it was in the case of my client at a point in time, a question of survival. We should not have been put up to that test. We withstood it. But I don't think as a small business, we should have been put up to it.

So I would suggest that at the option of the small business and with the finding of the small business person that the command that a small business person could opt for an arbitrator-type of a dispute settlement process rather than going through the cumbersome, extended, adversarial type of a process that we went through.

I would suggest that in the case of safety, where a small business supplier raises a safety issue, which we did, that there be a mechanism for dealing with that immediately, so that if—at least it's an honest perception, that there would be a safety mechanism. My client, and the one that Congressman Hertel happens to be aware of, very honestly viewed a safety perspective and put a lot of time and effort into it as a result of that, and lost a lot of money. And if that issue could have been settled sooner, then he, who is a very honest and conscientious small business person, could have been relieved of a great cost.

I think we need a technology review process that is independent of the prime contractors and the primes. I find both in the private business world and in the military procurement world that there is a stake in the status quo. And what you need, independent of that stake in the status quo, is somebody to look at the emerging technologies, see wherein how they can be assimilated into the system so that we overcome the status quo, the system. And I think at a Federal level, anybody that feels that they have technology and can make a prima facie case for that that there ought to be someplace for people to listen to the application of technology.

I think we need a much more corrective Department of Defense program, both for military procurement and technology.

Next, I think—and I would tie this together with my next thought—that we need national and regional advisory boards for

small business in the procurement process. My experience with that goes with the Federal Reserve and the experience I just had with the Comptroller of the Currency and the Community Reinvestment Act, where small business truly has a forum and an opportunity to speak up and tell how it is being treated within the system. My own experience at this point in time is that we are stepchildren. They do have people who are way down into the bowels of the bureaucracy whose function is small business. But it is truly—it is not even ho-hum. It is something that has been mandated legislatively and that they have to put up with.

I think from the standpoint of all you have said in your prefatory statements that there are ways that small business can be given its voice in this whole process. And you have very strong legislative parallels in the Community Reinvestment Act and the mandated advisory boards that the Comptroller of the Currency, the Federal Reserve, and the other agencies have under their structure.

Next, I think you should study the structured training program that we had here at the Detroit Chamber. I am convinced, as I looked at some of the piecemeal programs that I have seen sponsored around the country, that they are not nearly as effective. In that case, based on studied needs of our community and to the leverage of the Congressman's office, we brought together anybody we needed into the State, and it was truly effective.

We need a prime contractor review process. I think we need an implementation of A–76. We need a program evaluation. We need small business representatives on all boards and advisory committees, and people who are designated as such. I would suggest that somewhere within the context of the total bureaucracy or Congress that there be appropriate recognition for small business in both procurement and technology. And, finally, we need corrective and public programs for the prime contractors in working with small business.

I ran through a lot of these latter details, that I think each have their own substance. I guess the bottom line of it all is that I think there could be some studies from the grassroots level up, as to how the system is working and what the problems and frustrations of small business are, so that they could come to you and they could come together at the Department of Defense level, and there could be a consistent input. I do not see that. I see—what you are doing today is very important, but it is not a systematic kind of a thing where small business has input into that system. So I think if we studied that and how it is working, and if we had an ongoing oversight function, which is essentially what you are doing, then that would be very effective.

That is a little longer than I intended to speak, but I guess you can see that I am very concerned about the state of affairs. And I very much appreciate this as an opportunity for some people who, I can sense, are truly listening to the needs of small business.

Thank you very much.

Mr. HERTEL. Thank you. I totally enjoyed your views, and we will bring out the boxing gloves later for you guys as we discuss the totally opposing viewpoints of the first two witnesses.

But let me ask, as the host, that we limit our witnesses to 10 minutes. What happens all the time in Washington, is that, as the

day goes on, people at the end hardly get any time to talk. We want to make sure that everybody has the same chance, and that we allow some time for an exchange. Ten minutes might not sound like much, but, on the other hand, we only get 5 minutes when we are in committee, even on the House floor, without special permission to go beyond 5; for the very same reason, that everybody gets an opportunity to speak. So we would appreciate it if you could limit your remarks.

As the chairman said, we will put all the written testimony into the record. If you could hit the highpoints directly, the things you are most concerned about, we would appreciate it.

Mr. MAVROULES. Thank you very much, Mr. Hertel.

Ms. Rushton.

TESTIMONY OF SALLY A. RUSHTON, PROCUREMENT SPECIALIST, MICHIGAN OFFICE OF FEDERAL PROCUREMENT, LANSING, MI

Ms. RUSHTON. Mr. Chairman, Congressman Hertel, staff members, I appreciate being invited to talk about a topic which has been of great interest to me for the past 6 years; interesting, but frustrating.

I deal with the small business side of assisting small business to contract with Government. Many times, if I were that small business and my livelihood depended on a contract with the Government, I have said I would go on welfare. There are many areas prohibiting small businesses from dealing fairly with Government, as I am sure you are aware.

The new laws, regulations, acts, whatever, regarding Government contracting are a big step forward. However, when the buying activities do not comply with these regulations, it seems futile for Congress to spend time trying to effect change. Competition is curtailed by the complexity of the process, restrictive specifications, and market knowledge. The Competition In Contracting Act of 1984 was enacted to establish a mandate for competitive procurement procedures, to restrict the awarding of noncompetitive contracts, and to permit Federal agencies to tailor competitive procedures and specifications to the conditions of particular procurements.

CICA incorporates the following suggestions from the proposal for a uniform Federal procurement system submitted to Congress in 1982. I believe these ideas, if followed, would benefit business as well as Government. One is advance procurement planning. Two, to simplify and streamline the procedures process. Currently, every agency has a different way of submitting a bid, a different way of requesting a bid, a different way of requesting drawings. If there were a uniform method you could use with every buying activity, it would cut down on great cost to Government, save time to small business. They should promote the use of commercial products, and promote the use of functional specifications whenever possible and practical.

The Competition in Contracting Act states that agencies may not issue solicitations until 15 days after publication of notice in the Commerce Business Daily, and the closing date must be 30 days after this published date. You can pick up a Commerce Business

Daily any day of the week and find any number of agencies in noncompliance. The CBD restrictive policy of 32 pages, I am sure has not helped this. This is something that the U.S. Department of Commerce will have to deal with. If this takes a congressional or a legislative act, I think it should be done.

Small business must have time to submit a responsive bid. They must have access to technical data that is not restricted to one source. All too often the information published in the Commerce Business Daily is not clear as to what the item being procured actually is. This lack of information is very costly to Government, as well as time consuming and frustrating for small business. If agencies followed the format mandated on April 9, 1984, for synopsis of procurement information in the Commerce Business Daily, millions of dollars could be saved. If a company, when reading the Commerce Business Daily, could tell the material, the basic size, the mode of operation, they could be more selective of the bid packages that they order.

When a business ordered a bid package, as an example, for shop buildings that is advertised in the Commerce Business Daily, he received a bid package containing 1,217 aperture cards. He discovers on page 82 of the bid that the Government is going to—furnish the fabricated building that he thought he was bidding on. All they wanted were the electrical components that go on the inside of it.

The aperture cards alone were $97.37, plus the man-hours to put it together. That bid package ended up on Senator Carl Levin's desk—I sent it to him, showing him the waste. Had they said in the Commerce Business Daily that the Government was furnishing the fabricating, the company never would have ordered the bid, with 1,217—5 stacks of aperture cards that ended up in the garbage. If they sent out 25 of those packages alone, it is very costly to the Government. There was no indication as to what they were asking for.

Our contention is that if they told you it was a plastic item that was injected molded, the basic size is 6 inches, a company could tell whether they could manufacture it. But this is not something that you see. So companies order bid packages, and two-thirds end up in someone's waste basket because they have no idea, until they get the bid package, what the item actually is.

Small business needs to have access to bids on a timely basis. They need information that will allow them to be selective when requesting bid packages, and they need clear, concise, technical data. All to often, the specifications are outdated, not state-of-the-art. Functional specifications should be used when practical.

Congress needs to create a system for monitoring compliance of present regulations. Perhaps a hot line, similar to the fraud and abuse line, would be effective.

Michigan has 18 local procurement assistance centers that in fiscal year 1985 were able to help business bring 102 million dollars' worth of contracts to Michigan, and created over 3,000 jobs. With a better system, within the buying activities, I am sure that amount could be doubled. The 18 offices cannot achieve their potential of assisting small business to contract with the Government if the buying activities are not in compliance with legislation.

Mr. MAVROULES. Thank you very much, Ms. Rushton. I appreciate that.

Mr. Schlafmann, if you will end up the testimony of the panel, we will then go tc questions.

TESTIMONY OF NORMAN J. SCHLAFMANN, STATE DIRECTOR, MICHIGAN SMALL BUSINESS DEVELOPMENT CENTER, WAYNE STATE UNIVERSITY, DETROIT, MI

Mr. SCHLAFMANN. Thank you very much.

Mr. Chairman, Mr. Hertel, members of the staff, it is indeed a privilege for me to make an appearance before you today and to testify on the role of Federal Government and small business. I count it a privilege because I have witnessed the dedication and effectiveness with which Congressman Hertel has always represented his constituents. And, Mr. Chairman, from the time he was first elected to the House of Representatives in Michigan and now in his capacity as a U.S. Congressman, his concern, and your own, Mr. Chairman, as I have learned from my colleague at the SBDC Center in Massachusetts, for the proper role of Government in the lives of people, and especially in the lives of working people within your congressional districts and States, is both laudable and sincerely appreciated.

I am the State director for Michigan's Small Business Development Center Program. I have held that position for approximately 15 months, and am present today to tell you about that program and its effectiveness in Michigan.

Following a successful pilot study of 4 years duration, the Small Business Development Center Program was created by the Congress by enactment of the Small Business Development Center Act of 1980. The program is administered through the U.S. Small Business Administration.

The SBA provided the following summary of the history and expectations of this new program in one of its early announcements of it:

> In the mid-1970's, the United States ranked last among the 11 leading nations of the world in productivity growth. Many officials felt that the Nation's low standing in the world productivity race was in no small part caused by a lack of management ability and technology in the small business sector.

I find this interesting, I might say, that this is the same SBA that is now asking to be moved to another department. Going on:

> It was believed that with the establishment of the Small Business Development Center Program, small businesses located in those areas served by an SBDC would be assisted to grow and flourish. As SBDC's become operational throughout the country, they would do for the small business community what the Agricultural Extension Service has done for the farming community. What evolved was a partnership between the university, the government, and the private sector, designed to provide one-stop, full-service management, and technical assistance to small businesses.

Michigan received its initial award in the fall of 1983, in the amount of $200,000, to operate eight outreach service centers located on college campuses throughout the State. Wayne State University was designated as the lead center because of its role as grant administrator and fiscal agent. The SBA award was matched by a challenge grant of $100,000 from the Webber Foundations and an-

other $100,000 by the participating institutions. Thus, in its very first year of operation, Federal money served to leverage other resources from both the private and public sectors, as the founding fathers of the legislation had anticipated.

Michigan's experience with the SBDC Program has been a major success story, as our shareholders report and first newsletter so clearly depict. And we have distributed copies along with the testimony this afternoon.

Now, in the third year of operation, Michigan has 37 outreach centers strategically located throughout the State, including centers in Macomb and Wayne Counties, as you know, Congressman Hertel. The Federal award has increased by $1 million, and the funding from other sources—from the State of Michigan, from colleges and universities, and from other local community entities, such as chambers of commerce, local governments, and combinations of public and private sector groups—has increased by $2.5 million. Thus, in Michigan, an additional $3 is contributed to the program for every $1 invested by the Federal Government; in my view, a shining example of the New Federalism at work here in Michigan.

Our centers provided one-on-one counseling for some 2,500 business persons last year. Over 11,500 small business persons also attended some 400 training programs and received over 2,000 hours of training. Major conferences have also been sponsored or cosponsored by our network centers. For example, there have been women in business conferences, veterans' conferences, conferences particularly designed to meet the needs of minority business persons, conferences for farmers, woodcrafters, international trade, procurement, and so forth.

Over 33 percent of the businesses served by Michigan's SBDC's last year were wholly or jointly owned by women. Nearly 15 percent were veterans, and 12½ percent were minority-owned businesses. Nearly 38 percent of the businesses assisted were service oriented, whereas 24 percent were manufacturing, another 24 percent were retail, and the remainder were construction, wholesale, and other.

One of our specialty subcenters provides R&D assistance for small businesses and helped them to obtain upwards of $5 million in SBIR grants last year. Another subcenter, with which you and your staff are familiar, Congressman Hertel, is the Downriver Community Conference which is specializing in procurement assistance. Since it was established, the Michigan Department of Commerce, through its Community Growth Alliance Program—known as the CGA's—has established additional local procurement offices around the State.

Some of our centers specialize in technology transfers. Others have created incubator centers for fledgling businesses. They all provide technical management assistance through various business counseling and training programs for those who wish to start in businesses or who need assistance with their existing businesses. There is no charge for individual counseling, and only a nominal registration fee is charged for the management seminars, courses, workshops, and conferences.

An important feature of this program is the leveraging of professional and technical resources by local subcenters to provide the individual counseling and training which they offer. Although many of the subcenter directors and their consulting staffs have substantial years of private sector experience and solid educational training in business management, they also draw upon many private sector resources, volunteers, faculty, and students from local colleges and universities, and small business organizations and associations within their own communities to assist them with this task.

Another partnership which exists in Michigan and makes us a truly unique SBDC network is a partnership which exists between the State and Federal Government small business assistance programs. Of the 37 subcenters which currently comprise this network, 12 are associated with Michigan's public and private colleges and universities, 3 are special service subcenters, 10 are affiliated with local chambers of commerce, and 28—I must say that some centers fall into more than one category, if you're adding these—are linked with the Community Growth Alliance Program which is sponsored by the State of Michigan. Three of the network subcenters are entirely self-sufficient and receive support from neither the State nor Federal programs.

Although there are many more success stories I could share with you this afternoon, Mr. Chairman and Congressman Hertel, let me conclude by saying that the Michigan SBDC is, indeed, a real success story of which Congress can be proud. It is efficiently and effectively leveraging Federal money, with State, university, local government, and private sector resources, to reach a segment of the small business community which would otherwise not receive any assistance. In the process, many small businesses have been saved. Others have been discouraged from starting businesses where it is evident they were not ready. Hundreds of jobs have been created and/or saved. And Michigan's and the Nation's economy has been strengthened. What more can we ask of a Federal partnership program of minimal cost?

I have avoided an extensive discussion of the merits of an independent SBA agency in my remarks today because I believe that the Congress has once again wisely settled that issue through its actions on the respective House and Senate budget resolutions. I see no need to fix something which is not broken.

The Association of Small Business Development Centers, of which I am a member in my role as director of the State SBDC Program, has been a strong advocate of the need for and benefit of an independent agency. I can personally attest to a very positive working relationship and support a working relationship with the district SBA office here in Detroit, the region V SBA office in Chicago, and the Management Development and SBDC office in Washington, DC. In my view, the small business community is largely unorganized and is best served by a strong independent SBA agency. I am pleased with the actions of the Congress thus far, and I hope that we will soon get back to the business at hand rather than diverting energies and resources to divide our loyalties and effectiveness.

Thank you very much, Mr. Chairman and Congressman Hertel, for the opportunity to present my views on the role of Federal Government and small business. And thank you for supporting the SBDC Program, which is a perfect example of a Federal partnership that is working in Michigan.

[Newsletter referred to in testimony follows:]

An outreach program of Wayne State University

NETWORK NEWSLETTER

Volume one, Issue one: May 1986

U.S. GRAPHITE: A SUCCESS

Saginaw Area Growth Alliance SBC Helps Save A Company

The Saginaw Area Growth Alliance Small Business Center has worked with a company for nearly three years, taking it from bankruptcy to annual sales of ten million dollars. In the process 240 jobs have been retained and the local economy has been strengthened.

The United States Graphite Company (USG), was founded in 1891 by Harry and William Wickes. Between 1891 and 1915, graphite products such as stove polish, front-end luster for locomotives, lubricants, axle [illegible], boiler graphite, paints, [illegible], and pencil "lead" were produced. In 1915, USG began the manufacture of electrical brushes for electric motors. These consisted primarily of graphite and other materials that were compacted and baked into shape. It is from this basic technology that Graphitar products evolved.

In 1947, Wickes Corporation was formed, and USG was merged into it. In 1964, USG was renamed Wickes Engineered Materials, in part to emphasize the engineering aspect found in many of their products.

The Saginaw Area Growth Alliance found itself dealing not only with a company filing for bankruptcy, but also a company that was part of the rich heritage of the Saginaw area.

In April 1982, the Wickes Company Incorporated (WCI) filed for protection under Chapter 11 of the Federal Bankruptcy Laws. WCI announced in 1983 that they would seek buyers for Wickes Engineered Materials. The plant, 295,000 square feet and distributed on 16.7 acres, employed some 260 people at the time.

Following a year of negotiations with both WCI officials and bankruptcy judges, [illegible] Vandall became the President and Chief Executive Officer of the company, renamed U.S. Graphite. The Saginaw Area Growth Alliance worked closely with Vandall and his newly formed company. With the cooperation of the U.A.W., [illegible] with the efforts of the Small Business Center, the City, the County, the State, and Federal Government, arrangements were made with the National Bank of Detroit for Vandall to secure the financing necessary to purchase the 93 year old business.

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Governor James Blanchard presenting Saginaw County with $750,000 grant which was loaned to U.S. Graphite and is being repaid to the Saginaw Area Growth Alliance. The Funds are being used as a local revolving fund.

U.S. Graphite Management Officials at the check presentation.

Newsletter To Spotlight Network

Realizing the great need for information about the business and economic environment so crucial to the well-being of Michigan's economy, the Michigan Small Business Development Center has initiated this newsletter. It is designed to tell the success story of a network that has been created to provide assistance to the small business sector.

On a regular schedule this newsletter will share the success stories that are unfolding daily across Michigan. Thirty seven Small Business Development Centers are working to maintain a network that is efficient, effective, and needed. As a result of this effort in 1985, 2,500 small business owners and operators received over 8,000 hours of personalized counseling. And that is just a part of the story that we want to tell.

Each issue will highlight people, places, and performances. Your ideas are needed and openly solicited. Should you have a story that you want shared, let us know and we will do everything possible to help you get the word out.

Beginning with the second issue a Calendar of Events will be included. Should you have an activity or event that you would like listed, send the information to Bill Joyner of the MI-SBDC and we will be happy to include it in the first possible newsletter.

JoAnn Crary, Coordinator Saginaw Small Business Center

Focus on: MI-SBDC Administrative Office Staff

The team is in place. With the recent addition of David Jaye, the Assistant Director of the Michigan Small Business Development Center, the administrative staff is now at full complement. The past year has seen a rapid increase in demand for services being offered by the thirty seven centers in Michigan as more business owners and operators become aware of the services being offered. A staff has been assembled with a mutual concern and desire to serve the state's small business community and the network of centers that are on the front line of service. Meet your team!

Chances are a person will hear one of two voices when first calling the office. Florine French and Eileene Standley are the names behind the pleasant "Good morning" one hears when calling for help, assistance or with questions. Florine, a Detroit resident, joined the team in early March of this year. She provides clerical support to the staff. A graduate of Northeastern High School, Florine has worked for the Detroit Public Schools, the Girl Scouts of Metropolitan Detroit, and the Michigan Pharmaceutical Association.

Eileene Standley, the Office Manager and Secretary, has been with the program since its inception. She joined the staff in July, 1983. Eileene has worked at Wayne State University for 11 years, having served as a Secretary for the College of Lifelong Learning, and as Secretary to the Assistant Vice President for Student Affairs. Eileene works closely with each member of the staff, and is able to direct your inquiries to the appropriate person.

Benjamin Denno, the Business Manager, holds a Bachelor's Degree from Wayne State University (1978). He is currently working on a Masters Degree in Finance. Before joining the staff at the MI-SBDC, he owned and operated three successful small businesses. Benjamin is responsible for the development of program budgets, reviewing subcenter invoices and reports, assisting subcenters with their financial records, and the preparation of financial reports. Questions regarding financial reports should be directed to Benjamin.

The latest person to join the staff is David Jaye. David is serving as the Assistant Director. Prior to joining the SBDC, David owned and operated several small businesses, and was Director of Finance at Highland Park Community College. He also teaches accounting part time at Macomb Community College. David has responsibility for assisting the State Director with the management of MI-SBDC administrative office and with program development for the Network. Other responsibilities include the preparation of quarterly reports, the annual grand application, counseling and training evaluations, onsite review preparations, and oversight of computer systems development and implementation. "I love the challenge this position affords. There are so many positive stories on the small business scene and so many potential areas of success that I am looking forward to being a part of the team."

Vijay is a native of India. He has been in America since September 1985, when he arrived to begin work on a Master's Degree in Computer Engineering. He expects to complete his degree in the Fall of 1986. Vijay is a student assistant with responsibility for data entry and some computer programming.

William Joyner, Assistant to the Director, comes to us with a background of public and community relations, having served as Administrative Assistant to the Mayor of Livonia, and as an Account Executive with N.W. Ayer. Additionally, Bill served on the Wayne County Board of Commissioners for 3 terms. Bill has a Bachelor's Degree from CMU and a Master's Degree from UMU. He is currently completing his Ph.D. in Communication at Wayne. His area of responsibility will be promotions, writing, and community relations.

Norman Schlafmann serves as the Director of the MI-SBDC. He has been in this position for the past 12 months. He has been at Wayne State University since 1967 and has served in a variety of positions including Assistant to the President, Secretary to the Board of Governors, Vice President for State and Congressional Relations, Professor and head of the Higher Education Doctoral Program. Aside from working with the centers, Norm serves as the liason with Congress, the Michigan Legislature, and the SBA. "I am very pleased to have our team in place ready to provide service and assistance to the thirty seven centers across Michigan. This team is committed to facilitating the success of small business in Michigan."

Back Row (from Left): Norman Schlafmann, Vijay, Benjamin Denno, David Jaye.
Front Row (from Left): Florine French, Eileene Standley, William Joyner.

State Director's Report

Norman J. Schlafmann

I am pleased to be able to communicate with you through this publication. It has taken a long time in coming, but now will serve as an ongoing vehicle for communications both within our network of small business centers, and with the various individuals and publics we serve.

Likewise, it pleases me to introduce the members of the SBDC Administrative Office team in this first issue. I believe I have assembled a very capable staff which is experienced, knowledgeable, and skillful in matters related to small business. Our first, and primary objective as a staff is to service our network subcenters so they, in turn, can more effectively and efficiently serve the needs of their small business communities.

Another very important responsibility of the Administrative Office is to promote, advocate, and publicize the services and accomplishments of the Network. The enclosed Shareholders Report is one example of the story we are telling. We will also have a Network display at the April 22 Small Business Day conference in Lansing. Stop by and get your bumper sticker while there.

Many of you may be wondering what impact the new SBA head, Charles Heatherly's firing of Regional Administrators, and his public announcement to phase out the SBA may have upon the SBDC program. I wish I knew the answer.

The best information I have leads me to believe we will continue to be funded for another year, but our existence thereafter is totally dependent upon the pleasure of the Congress. We intend to continue to operate as though we will remain in existence, and keep our Congressmen informed of our success here in Michigan.

I hope you will find this Newsletter to be informative and beneficial to your understanding of the Michigan SBDC program. Let me know how we can best serve your needs and interests through this publication.

The Network Newsletter is a publication of the Michigan Small Business Development Center. The State Administrative Office is located at Wayne State University, 2727 Second Avenue, Detroit, Michigan 48201. 313-577-4848. The Michigan Small Business Center is operated under a cooperative agreement with the U.S. Small Business Administration.

R. William Joyner, Editor

PEOPLE/PLACES/PERFORMANCES

Meet The Wayne State University SBDC

Raymond M. Gerlick, Director, Karen J. Dotson, Program Coordinator, and Trina R. Wheatley, Secretary, are the names behind the office of the Wayne State University SBDC. "Since the establishment of the Small Business Development Center, in 1983, we have been helping small business owners gain the expertise not only to survive, but to manage for profit and growth. All around us are self made people who have ideas, or who provide services which have led to a successful business. I am convinced that the SBDC network is needed, and that more importantly, it is working," stated Dr. Gerlick.

In FY 1985 the Wayne State University SBDC was responsible for nearly 100 personalized counseling cases. Through the first two quarters of FY 86 the center has doubled that amount, to over 200 clients receiving personalized counseling.

FY 1986 is shaping up to be a record year in the number of people attending training programs sponsored by the Center. Over 2,000 people have attended sessions through the first 2 quarters of FY 86. In FY 85, 852 attended training programs.

Welcome To The MI-SBDC Network

Jean Johnson, from the Michigan Department of Commerce, has announced formation of the following new centers as part of the local Community Growth Alliance:

GRATIOT COUNTY SMALL BUSINESS CENTER
HILLSDALE COUNTY IDC
LENAWEE TOMORROW SMALL BUSINESS CENTER
MANISTEE MASON SMALL BUSINESS CENTER
OAKLAND COUNTY ECONOMIC DEVELOPMENT GROUP
TRAVERSE BAY AREA CHAMBER OF COMMERCE

Norm Schlafmann welcomes these new centers to the Michigan SBDC Network. "We have a very unique program in Michigan which features a artnership between the Michigan Department of Commerce and the .ederally sponsored SBDC program at Wayne State University. All Small Business Centers created by the CGA program are members of the MI-SBDC Network. This is a perfect example of the leveraging of resources which can take place between the state, federal, and local governments, as envisioned by the Congress," stated Dr. Schlafmann.

Venture Center Makes Perfect Cheesecake

It started out as an attempt to make a better cheesecake. And it turned into a full-time job, thanks to one Downriver program designed to help entrepreneurs get off the ground floor.

Beverly Bethune said it was her husband's penchant for sweets that led her to start experimenting with a famed New York-style cheesecake recipe. It was the Downriver Community Conference's Venture Center, however, that led to the mass marketing of her successful results.

The center was instrumental in helping Bethune get financing, low-cost office space, reduced utility costs and access to competent office services through its successful incubator program.

In early February, the Riverview entrepreneur opened her own bakery at the Venture Center, on North Line Road in Southgate. She now supplies 12 different kinds of cheesecakes for the delicatessen counter at a major supermarket and a chain of restaurants in the area, as well as for gourmet shops in Greektown and Wyandotte.

William Cheff, DCC's small business development manager, said "Bethune is a perfect example of the business center at work: She was looking for a place to expand her business and a way to finance it, and DCC was able to help her out."

This article is reprinted with permission of Mellus Newspapers and writer Dale Thomas.

U.S. Graphite

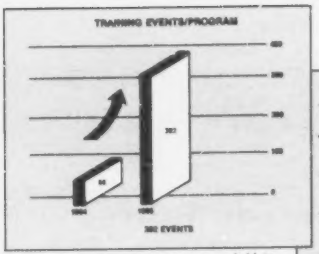
Con'td from pg. 1

A part of the financing arranged was a grant for Saginaw County of $750,000 in Small Cities Community Development Block Grant Funds which was loaned to U.S. Graphite. That money is being repaid to the Saginaw Area Growth Alliance and will be used as a local revolving loan fund. Proceeds will be loaned to other area businesses.

"We have worked closely with Mr. Vandall since the loans were first arranged in August 1984. It makes me feel good knowing that in less than two years U.S. Graphite has gross annual sales of ten million dollars and is projecting a 20% increase in sales due to the recent employment of a new vice president of marketing, better quality control techniques, and a customer-oriented approach to sales.

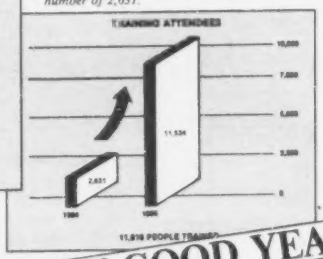
"The company stays in contact with JoAnn Crary, coordinator of our Small Business Center, who offers help and advice on a multitude of subjects. The success story continues for this company, and I am really pleased that we were in a position to be of benefit," states Jerry Breen, Director of the Saginaw Area Growth Alliance.

This story is a positive example of the continued efforts Small Business Centers across Michigan put into helping companies in need. The assistance does not end with the arrangement of financing, or developing of a business plan. In the words of Mr. Vandall, "it is good to know that the Small Business Center and the Saginaw Area Growth Alliance is there and that we can feel good about picking up the phone and asking for help."

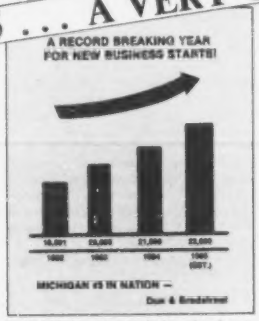


392 training events or programs were held in 1985. This represents better than a 300% increase over the number presented in 1984.

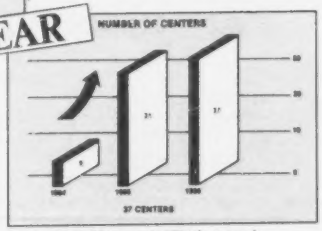
Nearly 12,000 people attended 1985 training events, a 350% increase over the previous years number of 2,631.



1985 . . . A VERY GOOD YEAR



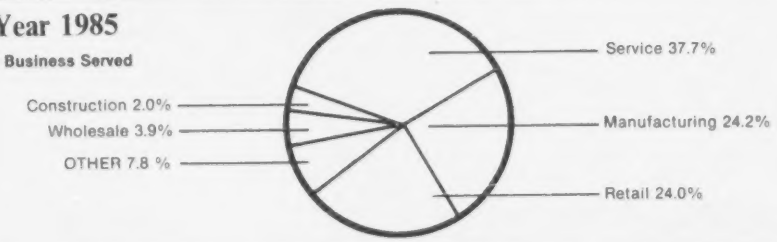
In 1985 Michigan was ranked number three in the nation for new business starts, according to Dun and Bradstreet.



From a base of 9 centers in 1984 the network grew to include 31 centers at the end of 1985. Already in 1986, we have expanded the network to include an additional 6 centers, for a total of 37.

For Year 1985

Type of Business Served



Sex Characteristic of Business Person Served		Military Service of Business Person Served		Race Characteristic of Business Person Served	
Male	*66.5%*	*Veteran*	*9.1%*	*Black*	*8.5%*
Female	*22.6%*	*Vietnam Era*	*5.7%*	*Other Minorities*	*4.0%*
Joint Ownership: Male/Female	*10.4%*	*Non-Veteran*	*83.8%*	*Caucasian*	*87.0%*

an outreach program of
Wayne State University

A Report To Our Shareholders*

*The Michigan and U.S. Taxpayers

Your SMALL BUSINESS DEVELOPMENT CENTER IN MICHIGAN . . .

IS WORKING

- Approximately 2,500 small business owners and operators received over 8,000 hours of personalized counseling last year.
- Over 11,500 small business persons attended some 400 training programs, and received over 2,000 hours of training.
- 20,000 persons attended a Business Expo co-sponsored by the Downriver Small Business Center.
- 25 small business grant proposals were developed for funding in the forestry and wood products industry.
- Nearly 450 people attended "Women in Business" Conferences co-sponsored by two centers.

HAS GROWN

- Beginning with 8 service centers in 1984, the MI-SBDC has grown to 37 centers today, which provide services to nearly 90% of Michigan's population.
- The SBDC program is a federally sponsored program which came into existence with the enactment of the Small Business Act of 1980.
- Among the 37 centers are some which specialize in procurement, technology transfer, and assisting small businesses in obtaining research grants. Others have created incubator centers for start up businesses.
- In 1985, over 37% of the businesses served were service oriented, nearly 25% were manufacturing, 24% were retail, nearly 4% were wholesale, and another 2% were construction.

IS COST EFFECTIVE

- For every dollar the federal government invests in small businesses through the MI-SBDC, an additional $3 is contributed by state and local sources.
- One service center estimates that $9.44 in financing is generated for every one dollar it spends for operations.
- The 37 service centers maintain only a minimum staff of two-three professionals, utilizing the resources within each community wherever possible.

IS EFFECTIVE

Many new jobs are being created and old jobs saved as a result of the MI-SBDC. For example:

- Over 100 jobs were saved or created in the Southeast Michigan community of Ann Arbor.
- Another 50 new jobs were created and 22 jobs saved as a result of a unique training program at one of the centers.
- Over 3,500 people attended a Franchise Fair co-sponsored by Saginaw Area Growth Alliance SBC. The fair resulted in 10 new businesses being established.
- $5 million in SBIR grants were obtained in 1985, up from $3 million in 1984 and $700,000 in 1983.
- Over $77,000,000 in new business and development financing was generated for 2,000 firms with the assistance of the Downriver Center.

IS NEEDED

- Small business represents an important part of the American economy.
- Nearly 90% of our nation's businesses are small businesses by the U.S. Small Business Administration standards.
- Michigan ranks third in the United States in the rate of new business starts, according to Dun and Bradstreet.
- In 1985, over 22% of the clients served in Michigan were women, 12.5% were minority, and nearly 15% were Veterans.

PROVIDES ASSISTANCE

- **Business Counseling** provided by college staff, Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), qualified volunteers, and professional consultants.
- **Business Training** activities that focus on current business uses. Classes, seminars, and conferences are offered at times convenient for business owners.
- **Current Business Information and Resources** at each center include business periodicals, books, newspapers, and reference material.
- **Business Services** include referral information to help clients locate other resources such as private consultants and service providers, federal, state, and local offices, and other useful information.

TO FIND OUT MORE:

The report does not end here. To find out more about the services provided by your Michigan SBDC, feel free to contact the Center Director in your area (over), or:

DR. NORMAN SCHLAFMANN, State Director, MI-SBDC
Wayne State University, 2727 Second Ave., Detroit, MI 48201
(313) 577-4848

THE MICHIGAN SMALL BUSINESS DEVELOPMENT CENTER NETWORK

1 **ALLEGAN/OTTOWA SMALL BUSINESS CENTER**
Holland Area Chamber of Commerce
7 East 8th Street, Holland, MI 49423
616/392-2389 • Contact: Kenneth Rizzio

2 **ANN ARBOR AREA CHAMBER INNOVATION CENTER**
912 N. Main Street, Ann Arbor, MI 48104
313/662-0550 • Contact: Thom Coder

3 **BAY AREA CHAMBER OF COMMERCE SBC**
205 4th Street, Bay City, MI 48707
517/893-4567 • Contact: Teresa Wilbur

4 **CENTRAL MICHIGAN UNIVERSITY SBDC**
Mt. Pleasant, MI 48858
517/774-3736 • Contact: Norman Deunk

5 **CENTRAL UPPER PENINSULA BUSINESS DEVELOPMENT CTR.**
2415 14th Avenue South, Escanaba, MI 49829
906/786-9234 • Contact: Peter Cambier

6 **DOWNRIVER SMALL BUSINESS CENTER**
15100 Northline Road, Southgate, MI 48195
313/281-0700 • Contact: William Cheff

7 **FERRIS STATE COLLEGE SBDC**
Alumni 203, Big Rapids, MI 49307
616/796-0461, ext. 3545 • Contact: Linda Kolodsick

8 **FLINT AREA CHAMBER OF COMMERCE SBC**
708 Root Street, Flint, MI 48503
313/232-7101 • Contact: Patrick Martin

9 **GRAND RAPIDS AREA SMALL BUS. ASSISTANCE NETWORK**
2 Fountain Street, Suite 100, Grand Rapids, MI 49503
616/242-6613 • Contact: Mary Ann McDonald

10 **GRATIOT COUNTY SMALL BUSINESS CENTER**
215 East Center Street, Ithaca, MI 48847
517/875-2083 • Contact: Donald C. Schurr

11 **HILLSDALE COUNTY IDC**
77 North Broad Street, Hillsdale, MI 49242
517/437-3200 • Contact: Marcia Loader

12 **JACKSON COMMUNITY COLLEGE SBC**
2111 Emmons Road, Jackson, MI 49201
517/787-0800, ext. 315 • Contact: M. Richard Shaink

13 **KALAMAZOO COLLEGE SBDC**
E. Lee Stryker Center, 1327 Academy, Kalamazoo, MI 49007
616/383-8594 • Contact: Thomas Breznau

14 **KALAMAZOO SMALL BUSINESS CENTER**
130 N. Kalamazoo Mall, Kalamazoo, MI 49007
616/343-1137 • Contact: James DeHaan

15 **LENAWEE TOMORROW SMALL BUSINESS CENTER**
216 North Main Street, Adrian, MI 49221
517/265-5141 • Contact: Dave Munson

16 **MACOMB COUNTY BUSINESS ASSISTANCE CENTER**
115 South Groesbeck, Mt. Clemens, MI 48043
313/469-5118 • Contact: Donald Morandini

17 **MANISTEE/MASON SMALL BUSINESS CENTER**
c/o Westshore Community College
3000 North Stiles Road, P.O. Box 277
Scottville, MI 49454
616/845-6211 • Contact: John Desidero

18 **MICHIGAN ENERGY & RESOURCE RESEARCH ASSOC.**
1200 Sixth Street, Suite 328, Detroit, MI 48226
313/964-5030 • Contact: Todd Anuskiewicz

19 **MICHIGAN TECHNOLOGICAL UNIVERSITY SBDC**
Houghton, MI 49931
906/487-2470 • Contact: Richard Tietler

20 **MIDDLE MICHIGAN DEVELOPMENT CORPORATION**
106 N. Main Street, Suite B, Mt. Pleasant, MI 48858
517/772-2858 • Contact: Tom Schumann

21 **MIDLAND COUNTY GROWTH COUNCIL**
300 Rodd Street, Midland, MI 48640
517/839-9901 • Contact: Robert Stein

22 **MONROE SMALL BUSINESS CENTER**
1555 S. Raisinville Road, Monroe, MI 48161
313/242-7300, ext. 344 • Contact: John Joy

23 **MONTCALM/IONIA ECONOMIC DEVELOPMENT ALLIANCE**
c/o Montcalm Community College
Sidney, Michigan 48885
227½ West Main Street, Ionia, MI 48846
517/328-2111 • Contact: Raymond Stitt

24 **MUSKEGON COMMUNITY COLLEGE SBDC**
221 South Quarterline Road, Muskegon, MI 49442
616/777-0201 • Contact: Diane Gauthier

25 **MUSKEGON/OCEANA SMALL BUSINESS CENTER**
349 W. Webster Avenue, Room 104, Muskegon, MI 49440
616/726-4848 • Contact: John Emdalc

26 **NORTHEAST MICHIGAN CONSORTIUM SBC**
P.O. Box 711, Onaway, MI 49765
517/733-8548 • Contact: Gordon Campbell

27 **NORTHERN MICHIGAN UNIVERSITY SBDC**
206 Gdoodas Administrative Center
Marquette, MI 49855
906/227-2568 • Contact: Allen Raymond

28 **OAKLAND COUNTY ECONOMIC DEVELOPMENT GROUP**
1200 North Telegraph, Pontiac, MI 48053
313/858-0732 Contact: Ron Fusilier

29 **REGION 7B SMALL BUSINESS CENTER**
P.O. Box 408, 402 N. First St., Harrison, MI 48625
517/539-2173 • Contact: Kevin Hetherington

30 **SAGINAW AREA GROWTH ALLIANCE SBC**
124 S. Jefferson Ave., 6th Floor, Saginaw, MI 48607
517/754-8222 • Contact: JoAnn Crary

31 **SAGINAW VALLEY STATE COLLEGE SBDC**
2250 Pierce Rd., University Center, MI 48710
517/790-4048 • Contact: Leonard Herk

32 **THUMB AREA SMALL BUSINESS CENTER**
3270 Wilson Street, Marlette, MI 48453
517/635-3561 • Contact: Marvin Pichla

33 **TRAVERSE CITY BAY AREA CHAMBER OF COMMERCE**
202 East Grandview, P.O. Box 387
Traverse City, MI 49685
616/947-5075 • Contact: Hal Van Sumeren

34 **WAYNE STATE UNIVERSITY SBDC**
2727 Second Avenue, Detroit, MI 48201
313/577-4850 • Contact: Raymond Genick

35 **W. CENTRAL COMMUNITY GROWTH ALLIANCE**
110 Elm Street, Big Rapids, MI 49307
616/796-4891 • Contact: Richard Ferguson

36 **WESTERN UPPER PENINSULA SBC**
326 Sheldon Ave., P.O. Box 365, Houghton, MI 49931
906/482-7205 • Contact: John Fear

37 **YPSILANTI AREA CHAMBER OF COMMERCE SBC**
11 North Adams, Ypsilanti, MI 48197
313/482-4920 • Contact: Charles Kohler

Sponsored by the U.S. Small Business Administration and the Michigan Department of Commerce
and supported by many local agencies and organizations.

5/86

Mr. MAVROULES. Thank you all very much for your very informative and enlightening testimony.

Let me just make a couple of observations and probably ask a couple of questions.

Mr. Francis, you were talking before about the Federal Reserve Board; that was my bill, not that I want to take any credit. But I do have a small business task force back home, and they recommend to me legislation which they feel is very important, very pertinent to their own parochial views, if they want to stay in business.

They suggested to me, a couple of years ago, legislation to mandate putting a small business person on the Federal Reserve Board, along with a person from the agricultural community, in view of the fact that between both those communities you employ most of the people in this country. And although we did not get the legislation through, in all fairness to Mr. Volker, he did agree to establish, through all the regions, a task force of advisors, made up of people in the small business community and from the farming community. And that is an invaluable help to some of their policies, hopefully, for the future. It is not a mandated piece of legislation, but we felt we would be doing the right thing for the country.

Do you want to comment on that? We think it is working.

Mr. FRANCIS. Sure. I would be pleased to.

There are two levels that you may be talking about. One level is membership on the boards, themselves; and the other would be on the advisory boards. On the boards, themselves, I do not see them as being adequately representative. I watch that—totally inadequately. At that point, if only as instructional to the Federal Reserve Board, there ought to be a person whose function is that; agriculture and small business.

So I see no problem why the Detroit branch should not have one, and even the Chicago branch; a person from agriculture and a person from small business. I believe it should exist.

Second, from the standpoint of the advisory boards, I had lunch with the people from around the country down in New Orleans about 6 weeks ago. And my perception from that luncheon—and it was a spontaneous kind of thing in the sense that we discussed what was going on—is that, essentially, there is a very condescending kind of an operation. It was a chance to see what the Federal Reserve was doing rather than at this point listening to any of the problems of small business. So there was a strong feeling of that.

In my participation as a designate of the Small Business United, at the Comptroller of the Currency's hearing a couple of weeks ago in Washington, a slightly modified tone, but still, in my concluding remarks, I said:

> You've got to listen to us. I don't see any evidence you are. And, number two, I see no proactive evaluation on your part of what you're seeing in the CRA statements, nor what I know what you consider, vis-a-vis, small business, adequate performance.

As a part of my background, I testified on CRA before the hearings when the regulations were developed. And at that point in time, rather than having them be a series of mandated statistical—in other words, you have to have so many of this or that, which would have been impossible, I came up with a thought that it

would—I think it was the generator of the idea—that the financial institutions should be able to articulate how it is serving its community, because the communities are different and the institutions are different. They have different talents; they approach the community differently.

I see no sense of evaluation coming through from the Comptroller's office and/or the Federal Reserve, or anybody, to understand how that evaluation is made. In relationship to small business, I saw no sense of relationship to anything they had done.

Mr. MAVROULES. How do you feel about legislation mandating a person from a small business community, one from agriculture being on the Federal Reserve Board?

Mr. FRANCIS. Totally supportive of it.

Mr. MAVROULES. Thank you.

Mr. FRANCIS. Incidentally, just to reinforce that, that goes with institutional bias. The problem—and I've got to congratulate Governor Blanchard for picking up and appointing an entrepreneurial commission.

Time and time again, people say, "We'll take care of you." Unless it's there, small business is institutionally overlooked. And I feel that very strongly.

Mr. MAVROULES. You refer to product liability insurance. We have had one hearing in Connecticut, and we will have others in Washington. We take this issue very seriously, by the way, although we are just beginning to get into it.

But one thing I want to make very clear is this: We work as a committee. We are nonpartisan. We are not here to take on Mr. Reagan. We are not here to take on Mr. O'Neill. We are not here to take on any one individual. But I want to reply to you, Mr. Thomson, that although you have given credit to the President—and you should because he deserves the kind of credit that you have talked about—you should remember that Congress played a very important part in the renaissance and the economic recovery of this country.

I will cite you a couple of examples; being a Democrat or Republican does not play a role here. Every budget that the President put before us during the last 5 years, 6 years, we have given back to him less money than what he requested—less money than what he requested. And I guarantee you that under Gramm-Rudman, which he came in at above the limit of 144 set forth by the law—he came in at 159 because people miscalculated on defense spending—we are coming in at a deficit of $137 billion.

And the point is that if we can work as a nonpartisan group, both Democrats and Republicans alike, with a President who has his own ideology—and we're not going to change him—I think we can do some good for the country.

But the point I want to make, and make it very clear, is that he did not do that alone. He did that with the help of the Congress. You know, we have a $212 billion deficit out there. And whether you want to agree with Mr. Stockman or not, he is saying the truth. He is trying to tell the American people we have a problem out there and we had better face up to it.

The only way I know—and I hope Dennis agrees with me—to bounce back and keep the recovery going is to get small business

moving in this country because they are the ones who are employing people; make the farm industry healthy because without a good healthy economy in the farm industry, we are all going to suffer. If a State like Louisiana or Texas is suffering today because of the oil problem, it is wrong for me, from Massachusetts, or Dennis, from Michigan, to ignore it. We have an obligation to make sure that they become healthy, also, because sooner or later it is going to catch up with us.

The thing where I disagree with you, and strongly, by the way—we're going to fight you—is you are not going to get rid of the SBA. Once the SBA is transferred to Commerce or Treasury, in my judgment, SBA is gone, absolutely gone. The little things that we expect from the SBA are going to be forgotten. They will be eaten up by a large conglomerate, and I think you know that. I'm not going to ask you to comment on it. I am just giving you my judgment.

But I am going to ask you about a program, and I would hope that maybe you can comment on it.

The SBIR Program plays a very important role for the technology of our country.

The SBIR Program has helped immensely throughout the country. We talked about taking pride in the qualitative edge we've had in technology all over the world, and we should because we have it, even in the areas of defense. But we are going to lose that unless our technology continues at a rapid pace.

SBIR is a sunset piece of legislation. It is gone in 1988. This Thursday morning, after a number of hearings I have had on the SBIR Program, we are going to, hopefully, reauthorize that in subcommittee. And the chief sponsors—it is nonpartisan. The chief sponsors are Silvio Conte and Joseph McDade, the two ranking members of the minority party.

One thing that you want to remember about the SBA, and I think a good comment was made before is that it more than pays for itself. In the SBIR Program, the public-private ratio of spending comes out to about $5 to $6 in favor of the private sector. For every $1 we, the Federal Government, put up—and we are gaining in technology—the private sector, on an average, is putting up $5 of its own money. So I think it is a wonderful program for the country. We hope to keep it going. And it will pay dividends in years to come for the next generation.

How do you feel about the SBIR Program?

Mr. THOMSON. Of course, the SBIR Program is one of those programs in which the transfer responsibility would be included. And, of course, the sunset provision, we are looking at a half-a-billion dollar program in fiscal year 1987, about the time it runs out.

It was interesting to me to call my Indiana small business person of the year just last Thursday, an adjoining State. They are involved in technology as far as metals, working very strenuously and strongly with NASA. They have had three phase I contracts, and they are in the second phase of one contract. They have three other phase I contracts coming on board. They are doing a great deal in metal technology in fibrous metals.

So when you talk about some of the NASA programs that are coming down the pike, high technology type of programs involving

metals that withstand heat, have strength and lightweight capacity, this is what is happening out there in part of that small business industry.

Mr. MAVROULES. We know it.

Mr. THOMSON. And I know that, too, the more I get involved in these programs. That is why to come to a hearing like this, it is not just to exhale because you can inhale so much, but by hearing what the panels have to say and you have to say.

I have not been involved in the SBA for all my life. Twenty-two years before that, I was in small business. It is interesting to see in 3½ years, coming from the 2 years in Washington, 1 year at a branch office in Springfield, IL, and 6 months in Minnesota, to be here next to Dick Francis and be able to share some diverse opinions. For that part, I am delighted to be here.

Mr. MAVROULES. We want to keep you in SBA, and the hell with Commerce. We want to keep you with SBA where you belong, and I think you will do a hell of a good job.

Let me just cite you two examples, and then I will go to my colleague and my dear friend, Dennis.

Mr. Schlafmann talked about the SBDC's. Under the President's proposal, those will be eliminated totally. And, No. 2, when talking about veterans' assistance, especially for the Vietnam veteran, who we treated so unfairly, in my judgment, over the years, we are now beginning to get in place programs under the SBA that are going to assist these veterans, and all veterans. If we are to transfer all of those over to Commerce or to Treasury, I have a gut feeling that they are going to be lost in the shuffle.

Now, would you comment on the one part of it, the elimination of the SBDC's? These would not be transferred.

Mr. THOMSON. Well, that is right. And, to respond to Norman, we talked about this about 3 weeks ago. When we had the small business development centers of our region in Chicago, we talked about the efforts of the small business development centers and the accessibility that they now have to the small business community. That isn't going to change. It was a few years ago when the small business development center was located on a huge university campus; it was very difficult at times for that small business person going into a campus of tremendous size to get assistance—first of all, to get a parking place and to be served.

We have seen a number of changes out there in the small business development centers, including a high technology SBDC at the University of Texas-Arlington. We have seen changes out there with the individual States. Oregon, its community college is the base of small business development centers. Illinois, it's run out of the department of commerce and community affairs.

Now, the one thing that they did in Illinois last year, through the legislature at a State level, was pass additional funding of $1,900,000. More and more of the small business development centers in the individual States are being funded by those individual States to tailor what they want in their particular State.

The small business development centers have come a great distance, from about 16 or 20, I think, when I left Washington just about 2 years ago, to 46 now, in 45 States plus the District of Columbia. They are on the grow. If, indeed, we are talking about true

economic development when we talk about job retention, job creation, increase of tax base, then we have some programs out there that certainly should be continued over a period of time.

However, here again, I think what the President and the administration is saying is let the States pick up that particular activity; if they are cost effective programs, then decentralize them to the States and build up those public-private sector partnerships. A great deal has been done there, also, when you talk about the SBDC's in conjunction with the SCORE/ACE Program and how they have formed the partnerships out there.

Mr. MAVROULES. Before I ask Mr. Schlafmann to reply, let me just make an observation.

The States throughout the country are picking up revenue sharing, which will be eliminated in the next budget. They are expanding their own tuition loan programs for the youngsters to go on to college. The States are now beginning to pick up aid for education. The States are now beginning to pick up—and these are facts, by the way. I am being totally nonpartisan; I do not want you to think I am coming at anyone. They are picking up nutritional programs. They are picking up economic development. We are talking about a hot economy at this time. But you and I know that this country runs in cycles. The day will come when the economy will not be so vibrant. It is going to come, as sure as we are sitting here this afternoon. And then what happens at that time when the States can no longer pick up the slack? We should be concerned about that. That is probably a word of caution to you and to the administration.

Mr. THOMSON. Well, Mr. Chairman, I went through some of those businesses——

Mr. MAVROULES. I imagine you did.

Mr. THOMSON [continuing]. Talking about 5 years ago, when 85 percent of my business was with Caterpillar Tractor Co. and International Harvester.

Mr. MAVROULES. Sure.

Mr. THOMSON. So I think I have a little bit of an insight from the small business perspective as to what happened to me at that particular time.

Mr. MAVROULES. I'm sure you do.

Mr. Schlafmann, do you want to reply? Do you want to defend yourself here?

Mr. SCHLAFMANN. Well, I think you have pretty much answered that, Mr. Chairman. The States are picking up so much of the burden, in some cases, appropriately so. As Congressman Hertel knows, this State has in most of its legislation stipulated that it is not permitted to continue funding programs that are left by the Federal Government and left without support in future years.

I do not see the State of Michigan, although it is out in the forefront, in my judgment, supporting small business centers throughout the State through its Community Growth Alliance Program. I don't see it continuing to pick up what is now the Federal share.

To me, what is so interesting about this program is that it is working. The Federal Government is not covering the majority of the costs of these programs. It seems like now the rest of the States will contribute full share. In our case, as I have already stated, the

private sector is picking up $2 for every $4 that is spent: $1 from the Federal Government, $1 from the State government; that is the private sector that is picking up the other piece of the cost. And I think that ought to be encouraged and supported as opposed to withdrawal.

In our case, our programs would exist, but they would be much smaller.

Mr. MAVROULES. Mr. Francis?

Mr. FRANCIS. Just a couple of observations on the program I have seen at work.

(1) It has created a cohesive national policy of people like Norm, who work together around the country. (2) Don't only look at it from the number of people they have counseled. But what has happened here in Michigan, and I assume it is somewhat of a model or it could be a model throughout the country; he has been in a position to draw together around funding, and a whole host of other SBA programs, the whole economic development and infrastructure. I have attended meetings where we had everybody from every association that had anything to do with financing. And I think that is a catalytic role that the Federal SBA, with the leverage of some of its programs, could and did do.

So let us look at the leadership role of the SBDC's themselves have played in the economic development infrastructure of the State. And that has been extremely important. I guess I hear an admission that they are working. But I think from the standpoint of leverage and priming and development of a national movement of Norm and his counterparts, that is a very important Federal piece. And I would strongly urge that we continue funding that.

Mr. MAVROULES. Thank you.

Mr. Hertel?

Mr. HERTEL. Thank you, Mr. Chairman. I am not going to talk too long because I am still worried about everybody getting a chance to testify. But I want to thank all the people who have given us their viewpoints in this first panel.

Ms. Rushton, I think, hit it on the head. It is the kind of thing we hear all the time. We work with our businesses and we have the seminars on Government contracting and the rest. To summarize what you said, I think, small business, no business should have to have a lobbyist to be able to do business and compete fairly and equally with the Federal Government or any other government. That is the problem. Smaller companies cannot afford to have somebody right on the spot to find out the specifications like the example you went through in your testimony. We will continue to work with you on that through the Armed Services Committee and the Small Business Committee, because I agree totally with you. We have made some improvements. There is a long way to go.

My friend, Dr. Schlafmann, really did summarize it by saying, in regard to the two viewpoints, we have made the decision in the House and the Senate in the budget. Whatever else comes out of that conference it is clear that SBA, job training, and a lot of these programs are going to be protected. Such a small amount is spent on them compared to all the other things that are in the budgets. The fact is that we do know that we need the type of partnership that Boston, MA has shown us. When you put Government, the pri-

vate sector, and business and universities together, you cannot be beat. You are unstoppable. The work that you are doing, Norm, and Ms. Rushton, in that area is exceptional.

The battle in the budget, of course, is going to be on the defense numbers. The President's budget was rejected by almost everyone, almost every Republican in the House. I think only 12 Republicans voted for it. Why? Because he wanted to eliminate about 40 programs and still increase defense. To Secretary Weinberger, defense is the key because it is the largest single expenditure. Secretary Weinberger is not happy with the Senate Republican budget figure. He wasn't happy with the House Republican budget figure. He is not happy with the freeze we have given him in the House budget. He wouldn't be happy with any number that we have ever heard. We work with him all the time in the committee and he won't give us priorities. Yet they want to stop programs that are so good, like these, where there is no waste or fraud, where the results are positive, where for a small amount of seed money, you are helping to create more jobs.

We have to remember that, even though times are good, we have a lot of hardcore unemployed people. We have regional pockets of unemployment. As the chairman said, we are concerned that those areas deserve our assistance, as we have asked for assistance before, or they can bring down the rest of the country and the economy. We remember, especially in our economy here in Michigan, that things do go up and down. We want people to have the opportunity to move into new businesses and to have job training. That is all people want. They want a chance to make their lives better for themselves, to have a better opportunity, to move ahead. That is why I think both the Republicans and the Democrats in the Senate and the House have agreed to protect these programs in the SBA at this time.

Mr. MAVROULES. Thank you very much.

I would now invite our second panel: Mr. Geary Maiuri, and I hope I pronounced that correctly, who is director, adult and professional continuing education, Macomb Community College here in Warren. We also have Donald Morandini, who is the coordinator of the Macomb County Business Assistance Center; and Ms. Janet E. Masi, director, Business Contract Center, Warren, Center Line, Sterling Heights Chamber of Commerce, Warren, MI.

Welcome, thank you for your appearance.

Mr. Maiuri, if you would proceed, we would appreciate it.

Mr. MAIURI. Thank you very much.

TESTIMONY OF GEARY M. MAIURI, DIRECTOR, ADULT AND PROFESSIONAL CONTINUING EDUCATION, MACOMB COMMUNITY COLLEGE, WARREN, MI

Mr. MAIURI. Mr. Chairman, Congressman Hertel, ladies and gentlemen, let me begin by thanking you for this opportunity to speak on a subject which, in my opinion, is the very essence of our capitalistic and free enterprise society. Small business is the most important aspect of our country's economic viability. A strong small business environment virtually means a strong economic America, with the jobs and prosperity that go along with it.

I would like to begin by describing for you what we at the local level are doing in relation to small business assistance, followed by what we are doing at the county and State level, and how that relates to the Federal involvement with the U.S. Small Business Administration. Last, I will describe to you concerns as voiced by small business persons, and ways that I would recommend that the Federal Government can assist the small business community.

At the local level, we at Macomb Community College have for the past several years offered a small business institute, with assistance from our county network aimed at providing training and retraining to small businesses in the area of management seminars, and classes, in order to assist business owners in overcoming the leading cause of business failure in America; that being lack of management expertise. Additionally, courses have been established for potential entrepreneurs which assist them in finding out for themselves: (1) If they are the right kind of person to go into business; (2) if their idea is one which will meet with success; and, (3) if they are going to go into business, what kinds of planning must be done in order for their venture to become successful.

At the county level, the college, along with the local chambers of commerce and the Macomb County Board of Commissioners, through the county planning commission, have the distinction of being the first designated Community Growth Alliance by the Governor of the State of Michigan, the Honorable James J. Blanchard.

As part of the Community Growth Alliance, the county currently operates a Small Business Assistance Network which provides one-stop service to local businesses and potential entrepreneurs. Included in this service are: Business counseling, financial counseling, loan packaging, small business seminars, and a referral service for area entrepreneurs.

The Small Business Assistance Network is funded by the U.S. Small Business Administration, the Michigan Department of Commerce, Macomb County, with contributions also coming from Macomb Community College, Detroit Edison, and the five major chambers of commerce.

At the Federal, State, and county levels, as described above, the Community Growth Alliance, with the Small Business Assistance Network and Government Procurement Office components, provide the makings for a solid support entity for local small business. I say the makings of a solid support entity because, in my opinion, all is not rosy. As I see it, the potential negative implications of the erosion of the U.S. Small Business Administration office, as it relates to suggested changes or potential changes which are currently being discussed, are profound.

In particular, let me now describe what I recommend in terms of Federal enhancement to the small business environment, based on my experiences:

One, I recommend that the SBA continue to provide all the services it currently provides. We at the local level utilize the Detroit SBA office extensively for assistance in terms of business development programs, publications, and films. SBA involvement has enhanced our overall outreach activity tremendously. Under the current administration proposal, as I understand it, which would become effective October 1 if it passes, we would find an elimina-

tion of the SBA's business and disaster loan programs, along with the agency's investment programs, and some of its business development programs. More specifically, the only business development and consulting functions the agency would be keeping are the SCORE and ACE functions. This move would have a profoundly negative impact on the inroads we have made in helping small business in this area over the past several years.

Two, I recommend the SBA and the Office of Advocacy should be maintained as an independent agency reporting to the President, and directly responsible to the small businesses of America. The ultimate reason to keep intact an independent small business agency goes beyond the need for small business loans and assistance. The SBA is essential to monitor and control and hound the Government about those things in which small business is in need of; to keep the Government, if you will, in touch with small business.

Three, I recommend continued and even enhanced SBA funding for local small business assistance centers and local small business development centers. These centers support the kind of local outreach activity necessary for assisting small business persons and potential entrepreneurs in terms of preparation of business plans, small business consulting, financial loan packaging assistance, and site selection.

This may sound a bit redundant to what you have heard earlier, but these are the feelings that we have in Macomb County.

Mr. MAVROULES. Thank you very much, Mr. Maiuri.

Mr. Morandini.

TESTIMONY OF DONALD MORANDINI, MACOMB COUNTY PLANNING COMMISSION, MOUNT CLEMENS, MI

Mr. MORANDINI. Mr. Chairman, Congressman Hertel, and staff, I would like to thank you for giving us this opportunity to address you today.

It is our understanding that the subcommittee will focus on the involvement of small business and Federal procurement, as well as general assistance programs offered to small businesses by the Federal Government.

The continued growth and stability of Macomb County's economy is dependent upon the constant creation, maintenance, and growth of small businesses. A successful strategy for the continued vitality of Macomb County's economy is related to the county's ability to provide an environment conducive to the generation of new businesses and the support of existing businesses.

We have recognized that the majority of new employment opportunities will come from companies having less than 100 employees. In 1983, there were 12,888 business establishments located in Macomb County. More than 98 percent of these businesses had fewer than 100 employees. During the last 10 years, businesses in the county with fewer than 100 employees have increased by more than 75 percent. In comparison, companies employing more than 100 employees increased only 10 percent.

As you know, Macomb County's economy is heavily dependent upon the automotive industry. We are taking steps through the Macomb County Community Growth Alliance to develop a diversi-

fied economy by encouraging entrepreneurship and local initiative. Small business offers a means for achieving these objectives.

In many cases, the small business community does not have the resources or time available to stay abreast of Federal, State, or local programs. To address these needs, Macomb County has developed a business assistance network, consisting of professionals knowledgeable and experienced regarding the resources available to the business community.

As an aside, this is Macomb County's small business development center.

The business assistance network has formally been in operation since September 1, 1984. It is operated through a public-private sector partnership approach by the county of Macomb, Macomb Community College, and the local chambers of commerce. The network provides free confidential assistance to new and existing businesses. Since establishing the network, our counselors have served more than 3,000 clients. We estimate that more than 140 businesses have been started or retained through this program, involving almost 1,200 jobs. In addition, the network has sponsored small business workshops which have been attended by more than 1,000 persons.

The Macomb County Business Assistance Network is jointly sponsored by the Macomb County Board of Commissioners, Macomb Community College, local chambers of commerce, the Michigan Department of Commerce, and the U.S. Small Business Administration. For every $1 the Federal Government invests directly in our program, an additional $4 is contributed by State and local sources. The cooperative support by Federal, State, and local agencies has enabled Macomb County to develop and maintain an effective program for the small business community.

Critical and essential resources supporting our overall assistance network are provided by the U.S. Small Business Administration. In addition to direct financial support, the SBA provides our clients with access to almost 200 business development pamphlets and booklets. These publications provide clear and concise information on topics such as financial management, business planning, and marketing. In most cases, information in this format is not available to the business community from any other source. For us to duplicate these types of resources would be impossible.

As you know, the SBA also provides financial assistance to the business community through their 7(a) loan guarantee program, 503 program, and direct loan program. Coordinating these financial programs with private sector support often means the difference between success and failure to a small business. During fiscal 1985, 258 direct and guaranteed loans, representing more than $56 million, were made to Michigan firms. This represents a significant impact to Michigan's economy.

In conclusion, Macomb County has strived to develop an economic development strategy based on a public-private sector partnership. Through a cooperative effort at the Federal, State, and local levels, we have succeeded in developing a coordinated approach to stimulating economic development and employment opportunities in Macomb County. The elimination of the U.S. Small Business Ad-

ministration or a serious reduction in its current level of programs would have a significant impact on Macomb County's efforts.

Mr. MAVROULES. Thank you very much, Mr. Morandini. Ms. Masi, would you proceed?

TESTIMONY OF JANET E. MASI, DIRECTOR, BUSINESS CONTRACT CENTER, WARREN, CENTER LINE, STERLING HEIGHTS CHAMBER OF COMMERCE, WARREN, MI

Ms. MASI. Chairman Mavroules, Congressman Hertel, and staff, the Warren, Center Line, Sterling Heights Chamber of Commerce, in its role of providing leadership and services to the business community, functions as the office for procurement information for Macomb and St. Clair Counties, one of those 18 centers referred to earlier by Sally Rushton. In that capacity, the chamber of commerce is a part of the community growth alliance business assistance network, and has direct contact with the needs of businesses. The local procurement office business contract center is working with over 130 firms who are currently selling to the Federal Government or who are trying to establish that market. We hear of the successes and the frustrations, which I wish to share with you at this hearing.

The business community has certain impressions about the process of selling to the Government, not all of which are favorable or accurate. Some of the commonly held beliefs are: The paperwork is impossible to deal with; the complexity of the system makes payment delayed and difficult; access to the appropriate buyer is difficult if not impossible; and large businesses are favored.

The role of this procurement network is to help alleviate these apprehensions and, in some cases, misconceptions, and to offer resources when problems occur. Our basic message is that this is a complex process, different but no more difficult than selling to any very large corporation once the system is thoroughly understood. In addition, there are benefits not available in other markets. Legislation mandates an open information system which, theoretically and in most instances, makes intended purchases public and able to be bid competitively. Protest systems are made available when there is a perceived discrepancy from the mandated process. These, however, are not well understood or easily accessed by the novice. Payment systems function well within the established timeframe as long as the proper documentation is submitted. We have found that payment complaints can usually be traced back to a misunderstanding and incompatibility of the proper paperwork requirements in the business' own billing process.

Competition advocacy is, for the most part, promising to be of help to this area of small businesses. A central information source for this program, including a comprehensive and updated list of targeted items nationwide, would make this effort more useful.

Among the frustrations identified by area contractors is the lack of support to the new contractor from some buyers. Often, the buyer, when contacted, is unclear, cannot or will not give the requested information, and tends to discourage the new potential bidder who does not know the proper questions to ask. The perceived role of the buyer varies greatly and is a key to improving

the system. Bidders often have difficulty acquiring the bid package on time to respond. Timeliness remains a problem at this step despite legislation efforts to establish an appropriate timetable.

Once a bid package is received, another problem is encountered in acquiring the bid history. There is no easily accessible system for disseminating this vital information. At present, the buyer must be individually contacted by each potential bidder to obtain previous prices and quantities. This sytem is time consuming and unreliable and could certainly be improved upon through an easier data system.

Another suggestion for helping companies to identify proper bid opportunities involves the Government coding system for the services section in the Commerce Business Daily. These categories are identified only by a single letter, and are very broad in scope. Further refinement of the categories, with subgroups, would help to target appropriate items for a better match with a company's capabilities.

One last suggestion from an experienced contractor in this county involves lack of Government recognition of businesses who have made a commitment to Government contracting. Some businesses feel that a degree of priority should be given if such an investment is made and expertise acquired, that this is more cost effective to the Government than risking a new inexperienced vendor. Other businesses wishing to enter the Government contract arena need to gain that experience through the open competitive bid system, and careful contract monitoring from DCSMA can help, I think, in this effort.

In this controversial debate, balance must certainly be sought so that the best possible product is purchased at the lowest overall cost. The Business Contract Center is an important resource for Macomb and St. Clair firms. Our services provide to business a network and linkage with the Government purchase process so that this goal can be achieved.

Thank you.

Mr. MAVROULES. Thank you all very much.

Mr. Morandini, in testimony you make a very good point: "For every dollar the Federal Government invests directly in our program, an additional $4 in contribution is made by State and local sources."

How about the private investment? If you get a 4-to-1 ratio, State versus Federal, how about the small business person out there; aren't they investing some money out here? What do you think that ratio comes out to?

Mr. MORANDINI. The contribution of the 4-to-1 ratio includes State money, county money, money provided by—support provided by the community college, and through the local chambers of commerce. We are in the process of investigating an expansion of the private sector involvement right now.

Mr. MAVROULES. In other words, you are going to find out exactly what that private business person is contributing on their own?

Mr. MORANDINI. Yes.

Mr. MAVROULES. Now, when you do that, of course, it isn't an investment, say, of $100,000 versus $200,000. I would suggest to you, to take into consideration the jobs created, No. 1; No. 2, what it

does for the community; and, No. 3, what it does for Federal revenue in terms of our tax dollars.

I think you are going to find that it's a hell of a ratio.

Mr. MORANDINI. Our program has been operating about 18 months, so it's difficult for us to——

Mr. MAVROULES. It is going to take a little time.

Are any of you familiar with the SBIR Program that I mentioned before?

Ms. MASI. Yes.

Mr. MAVROULES. How do you feel about that? Give me a little comment on that.

Ms. MASI. Well, I can comment that we have very much enjoyed having that opportunity available to our firms. We have a few firms in Macomb and St. Clair Counties who are very interested in this solicitation round from SBIR and who are going to try for one of those phase I grants.

Mr. MAVROULES. I believe we ought to reauthorize it permanently.

Ms. MASI. Absolutely; absolutely.

Mr. MAVROULES. Thank you. And I think you all agree to that?

Let me ask another question. Let me divert the questioning here. We have a new tax reform bill coming out of the Senate that you probably have read about during the past week. We'll be taking some kind of action on it, Mr. Rostenkowski stated probably before the end of the year; which tells me that no action will be taken before the election this year.

Mr. HERTEL. I bet you there will be action by October.

Mr. MAVROULES. Maybe by the end of the year we'll have a new tax reform package.

How do you think those proposals coming out of the Senate right now will affect small businesses? Do you have any opinions on that?

Ms. MASI. I think small business is very apprehensive and concerned.

Mr. MAVROULES. You will lose part of your investment tax credit——

Ms. MASI. Yes.

Mr. MAVROULES [continuing]. But the accelerated depreciation will continue, however. So that is one of the benefits that you do have.

Ms. MASI. I think they are very, very concerned with it. That is what we are hearing at the chamber of commerce.

Mr. MAVROULES. OK. What part of it are you concerned with, do you have any idea at this point? Do any of the others have comments on that?

Mr. MORANDINI. It is difficult right now to determine the long-term effects of the proposal. It is difficult for a number of people in small business to understand exactly how it is going to affect them. They can concentrate on it on the short run, but it is difficult to look at the long term.

Mr. MAVROULES. I would imagine that the investment tax credit must be a great concern of yours and small business. However, you have to weigh that against the accelerated depreciation. I think we have to have an equal balance here on that issue.

If the SBA were to be transferred, as suggested by the administration, over to Commerce to a limited degree, and also to Treasury, even less limited, and then the rest of the programs totally eliminated, what kind of effect do you think that will have upon the country?

Mr. MAIURI. In terms of our activity with respect to publications and the use of the Field Development Office, it would have a profoundly negative impact on our operation. We utilize the Detroit area SBA extensively in terms of the kind of assistance they provide, the kind of publications that are available, potential assistance in terms of field development people who sit on our advisory committee. If those people are done away with, if those jobs are done away with, we will have to do without that kind of expertise that we have had in the past.

Additionally, two valued activities that we see in terms of SBA are, No. 1, the legislative and regulatory advocacy, and also the assistance in helping to get Government contracts. So from that standpoint, as I mentioned earlier, in our opinion it is not just the loan guarantees and the field development activity. It is much more than that. It is the ability for small business to have a voice, and not to be hidden inside a large bureaucratic entity.

Mr. MAVROULES. Very good.

Mr. MORANDINI. Not only—as Geary was mentioning, but as a direct contact with an independent agency. One of the problems we have noticed with many people in small business is that they don't know where to go, they don't know whom to talk to. And that leaves a lot of frustration and we feel a lot of that frustration. So we have been able, through the Detroit office and through the regional offices, to identify resource people that we can then find answers from.

Mr. MAVROULES. You feel that you would lose your voice relative to small business?

Mr. MORANDINI. Yes.

Mr. MAVROULES. Do you all agree with that?

Ms. MASI. Yes.

Mr. MAVROULES. I am not trying to put words in your mouth, but I am trying to get it out.

Mr. MORANDINI. It surely would be substantially declining our overall objectivity.

Mr. MAVROULES. Let me ask one final question, and then I'll defer to my colleague.

When the automobile industry goes into a slump—and I remember the days, by the way, when Dennis and others, took the floor when you were going through a hell of a time here in Detroit, MI. But when it goes into a slump, what happens to small businesses in the area? What kind of effect do you feel?

Mr. MAIURI. The trickle effect, the negative impact is profound, especially in the county of Macomb. We probably have more automotive suppliers than any other county, at least in the Midwest, and probably in the country. And those automotive suppliers, when business is down for the automotive industry, they are down tremendously in terms of their operations; the failures, the layoffs. It is devastating. It is a depression in this area when this kind of activity occurs.

Mr. MAVROULES. Am I correct in stating that you at one time in this area were running about a 19-percent unemployment rate?

Mr. MORANDINI. Higher.

Mr. MAVROULES. Am I right, Dennis? I remember Dennis talking about that at one hearing that we had.

Well, thank you. I am going to defer now to my colleague. Dennis?

Mr. HERTEL. Well, thank you, Mr. Chairman. I told you how proud we were of all the progress that has been made. Five years ago none of these organizations existed, and the progress was negligible as far as people having the opportunity to get the information—that's all they need to move ahead. So we are very proud of the accomplishments, again, with a very small amount of money. If we gave them more money, I don't know how many more jobs they could bring in. They are on such a tight string at this point.

In 1982, in the depth of that depression you were talking about, many companies turned for the very first time to trying to get some Government money because the private sector was so bogged down in this area. Since then, the companies have realized that they can do both. They can still work as hard as possible in the private sector, but whenever possible they have tried to move into the public sector even though, as pointed out in Ms. Masi's testimony, that is a whole different ballgame. And that is what we keep hearing all day, it's a different ballgame.

We try, in our work in Washington, to restore the people's common sense and rationality to the procurement and contracting problems that exist. We have made some progress. But, as you continue to point out, there is so much more to do.

Let me just say in regard to the tax bill that we are going to have three bills. We had the House bill; that was confusing enough. General Motors was for it, completely for it. Ford was totally against it. Chrysler was neutral. They said we had to do something about the deficit, and that is all we have accomplished so far; we have finally reduced the deficit in the budget. Then, of course, we have the Senate bill. When it goes into conference, it will very likely be a completely new bill once again. The problem is that at that point we will hear again from the corporations, GM, Ford, and others around the country as to what they think.

The problem is, as the chairman points out, we need to know how it affects small business.

When the bill comes out of conference, there will likely be a small amount of time before it is voted upon by both Houses. Of course, at that point, you cannot amend a bill.

So there are some tough decisions ahead. We would like to hear as much as possible from you and people in small business about how they view the House and Senate versions, how it affects them, but there is no time for input when it comes up for a final vote.

I just want to commend all of you in your testimony today, for the hard work you do, the accomplishments you have had and the people in your organizations for what they do with such a small amount of resources. Let me say that it is appreciated very much by the people and the companies that have worked with you.

Mr. MAVROULES. Thank you.

But the reason I keep pounding away at the public-private ratio is that it is very important. Last week, we had testimony in Washington from the National Science Foundation. They are the ones that stated to us in the SBIR Program, the private investment was 8-to-1 versus the public investment. That is better than a UDAG grant, Dennis.

In the agricultural areas, and they are just beginning to get their act together, they are running 4 or 5-to-1. Can you imagine if we get into an SBIR Program of high technology in the areas of automotive, which is a basic supply for your economy, the kinds of public-private ratio figures that can be demonstrated for the country, and the success stories that we can have on a long-range program?

It is important for me, as the chairman, to take it back and have that on the record. So when I argue the point, hopefully on Thursday, I am going to have my colleagues agree with me. So forgive me if I'm repetitive or redundant, but it is extremely important for my piece of business on Thursday.

Mr. MORANDINI. That is another example of the situation where it is many times getting the word out to people, letting them know that those kinds of programs are available. And without that, many times people go along and do not realize what is available and what kind of assistance is available.

Mr. MAVROULES. That's right. It will be predominant, I can assure you of that.

Thank you all very much. I appreciate your testimony here this afternoon.

And for our final panel I am going to invite Mr. Frederick Nerone—I hope I say that correctly—president, Empire Electronics, Troy, MI; Mr. G. Michael Gallagher, president, The Gallagher Co., Grosse Pointe, MI. One other individual asked to testify, Paul R. Murphy, president, Paul Murphy Plastics Co.

I invite you all to join us, please.

We will have three people testifying.

This is our final panel. If you can, condense your statements. We will put all of your statements into the record.

Mr. Nerone, if you would begin, we would appreciate your testimony.

TESTIMONY OF FREDERICK A. NERONE, PRESIDENT, EMPIRE ELECTRONICS, INC., TROY, MI

Mr. NERONE. Thank you. Mr. Chairman, Congressman Hertel, other members of the Committee on Small Business, and attendees at this hearing, I am Frederick Nerone, president of Empire Electronics, Inc., located in Troy, MI.

First, I would like to thank you for the opportunity to testify at this hearing on Small Business and the Federal Government. The issue which brings us together today is not a new one. It is an ongoing issue that has concerned both small business and the Federal Government for many years, and has seen slow but steady improvement. However, it is still far from being a resolved issue. That is, small business is still experiencing considerable difficulty in obtaining and carrying out Government contracts.

My company, Empire Electronics, is a closely held, 5-year-old electronics distribution and assembly business of 50 employees. We are a growing business, but struggling to seek out a profit in an industry dominated by giants and medium-sized businesses with long-term relationships with the Government and its prime contractors.

Empire's challenge in this arena is no small task. We are confronted with competition which is able to outprice us at every turn due to the large volume discounts they enjoy from electronic component manufacturers. Additionally, the electronic assembly business seems to be wired, at least it seems that way to us. Specifically, we have made repeated attempts to secure business with local prime contractors, but are unable to get an audience with the buyers. We are informed that our competitors have multiyear contracts which, we are told, have also been encouraged by various procuring activities; and they are not taking on new suppliers. The dilemma is compounded by our lack of experience in Government contracts and seems at times to be a fruitless pursuit. Nonetheless, I am determined to overcome the apparent market obstacles if I can get a fair shake in establishing Empire as a credible source of supplies for the Government.

My purpose in testifying today is not to tout Empire Electronics or secure contracts; rather, my purpose is to make clear the difficulty that many small businesses still experience in attempting to do business with the Federal Government. The difficulties seem to be centered around understanding the very elaborate rules of Government procurement and trying to carry out those rules within the framework of our current commercial enterprise. Maybe that cannot be done, practically, in a small business.

My concerns for practical accommodation for Government work go beyond learning the rules. While it is a major undertaking to learn to read and understand the various forms and contract requirements, one can learn the basics on bidding and carrying out a contract after some hit-and-miss experience. My most serious concerns are the extensive clauses and provisions that no one explains.

I refer to Federal Acquisition Regulations and DOD FAR Supplement clauses, procurement quality specifications, markings and identification specifications, public law references, Mil-standards for changes, executive orders, and U.S.C. acts. All of these are referenced in solicitations and contracts, and few, if any, are explained. It usually only states that the contractor must comply. Small businesses usually are ill-equipped to cope with this level and multitude of requirements and, quite frankly, considers much of it Government mumbo-jumbo.

I might add that Ms. Rushton's earlier testimony adds a very nice detail to this point, and describes the frustrating experience of wading through a solicitation or an RFQ.

I am pleased to find that some programs are being sponsored by various agencies to help small business understand Government procurement. Specifically, Michigan Business Opportunity Day on May 21 is being held to provide workshops on Government business. That program, sponsored by TACOM, will be a real aid to businesses like mine, and I plan to attend with several of my key employees.

More programs like the Business Opportunity Day will help the situation a great deal. But what may help more are programs that can be taken to the workplace. Shutting down a small business to attend workshops can present major problems in scheduling and keeping the business running. What is needed is a program that either brings Government assistance, such as SBA representatives, to the workplace, or possibly a video tape training program, such as is found in commercial training institutes. The latter would require minimal funding and would serve a wide audience. Most businesses, or their owners, have equipment to show VHS or BETA format films. More importantly, the small business owner can schedule more employees to attend the program, while not impacting the business.

If these or other programs are enacted, I would be pleased to assist from the private sector as a reviewing or consulting party—at no charge, of course. I feel the issue requires significant attention, and those of us affected can best help by offering our experience as a guide to those who make policy changes.

I would like to add a couple of comments that are not in my written statement, which came to mind during earlier testimony. First, if I seem uninformed about the small business programs it's because I am. I think this underscores the need to reinforce information and training programs, such as the SBA and others currently support.

Last, and in closing, based on my experience to date, as a small business owner, the issue of the SBA transfer to Commerce is a clear-cut move to deemphasize assistance to small business. That proposition is unthinkable in view of the needs of small business and any movement to oppose a transfer has my full support.

Again, I thank you for the opportunity to testify today, and I hope I have added some meaningful data to your program.

Mr. MAVROULES. Thank you very much, Mr. Nerone. Mr. Gallagher, if you would proceed, please?

TESTIMONY OF G. MICHAEL GALLAGHER, PRESIDENT, THE GALLAGHER CO., GROSSE POINTE, MI

Mr. GALLAGHER. Good afternoon. My name is G. Michael Gallagher. Thank you, Chairman Mavroules and Congressman Hertel, for the opportunity to testify today.

My company owns, operates, or holds interest in companies involved in the distribution and sales of computer hardware, software and systems, printing and publishing, and merger and acquisition, and management. I will concentrate today on my experience in attempting to do business with the U.S. Government, involving computer-related products.

I was prompted to attempt doing business with the U.S. Government by information about OMB circular A76, acquired through Federal Procurement Education Forum Workshop Series for professional and technical management firms seminar, which I attended. Many people counseled against this endeavor with the Government, citing slow pay and insurmountable difficulties. We investigated and found out that the U.S. Government is the largest purchaser of goods in the free world and pays as specified in the con-

tract. Also, the check is good. It seemed an opportunity for us, and our local and State economies would surely benefit. We decided to concentrate our efforts on providing computers, related equipment/peripherals, and software systems.

I have chosen an example concerning the provision of hardware and another of software for today. A needs analysis readily showed that the Government required the acquisition of PC's and minicomputers. As president of a hardware distribution company, I readily identified this as our opportunity. We began to familiarize ourselves with the procurement procedures: How do you prepare a request for proposal; what is a request for quote; what is the CBD? We defined these terms and then checked the requirements for eligibility, and found that we met the criteria for providers. Our odyssey was about to begin.

We contacted the GSA in Chicago, and they politely guided us through the schedules and identified that we were, indeed, qualified. We were then provided with the bidder's mailing list application code sheet. The GSA explained that the completed application was to be mailed to the Federal Center in Denver. We waited several weeks, then recontacted Chicago, and were informed that enough time had indeed passed and that we should be receiving mailings. It became apparent during this meeting that aid from our Federal legislators might be of help. We were directed to the staff person charged with aiding in Federal procurement. He, in turn, sent us to something referred to as the Michigan Liaison Office between Federal and State. We were introduced to something referenced in the Detroit area as the Office of Business Expansion, dealing with Government sales and contracts. We were then advised to approach the GSA. We were still not on a schedule.

We learned during this time that hardware dealers were plentiful and firmly entrenched in the purchasing system. Also, a software company, which I am associated with, had developed a product which we learned was of stated interest to the Government.

The ADA programming language had been mandated for use by the Department of Defense directive 5000.31. The mandate provides for ADA to become the overall programming language for mission critical applications. The Under Secretary of Defense, Dr. Richard D. DeLauer, states in his directive "The ADA programming language shall become the single common computer language for the defense mission critical application." A later directive, 3405.xx, extends the mandate to mission—to nonmission critical applications as well. House bill 5988 addresses and supports the ADA software initiative: "The conferees fully support ADA and agree that ADA would contribute significantly to reducing software expense." Here appeared to be a noncomplicated offering for us to provide the U.S. Government.

We entered again into the process of accessing the system. Step one, the GSA; 2, 3, 4, 5, 6, back to the GSA, where we are presently. The merry-go-round ride had begun again.

Many potential mutually beneficial business arrangements are stymied by the confusion surrounding the possibility of doing business with the Government. There is no clearly identifiable route for businesses to follow. The answers and assistance often given by well-meaning assistants are sometimes incorrect, or misleading, at

best. The merry-go-round effect I mentioned previously is irritating as well as frustrating. It can mean financial failure for some, and exasperation or abandonment of the project for others. Our hardware project is but one example of the latter. We continue to forge ahead with the software and the training proposal. We as yet cannot see the light at the end of the tunnel, at the end of the procurement tunnel, but we have found the entrance.

Thank you very much.

Mr. MAVROULES. Thank you very much, Mr. Gallagher.

And to finish here, Mr. Murphy.

TESTIMONY OF PAUL R. MURPHY, CHAIRMAN, BOARD OF DIRECTORS, PAUL MURPHY PLASTICS CO., ROSEVILLE, MI

Mr. MURPHY. Mr. Chairman, Congressman Hertel, staff members, thank you for permitting me to speak to you today on this important subject. What I have to say will take 2 minutes, no more, no less. Please listen attentively.

The purpose of this—oh, I should tell you that I am Paul Murphy, chairman of the board of directors of Paul Murphy Plastics Co., located right here in Roseville, MI.

The purpose of this hearing is to focus attention on ways in which the Federal Government can aid small business. This begs the question of whether the Government should aid small business. I am here to tell you that it should not. I am here to tell you that Government intervention in the economy is wrong. It is impossible to help business. Government programs designed to this end do not accomplish such. What these programs do is to help some businesses at the expense and detriment of others.

Make no mistake. The Government has no ability to give—make no mistake. The Government has no ability to give aid. It creates nothing. Its resources come from the taxpaying producers of this country. And any program designed to help one group of taxpayers must necessarily be at the expense of all other taxpayers.

What gives Government officials the right to spend my money helping others? Why are they entitled to appropriate my efforts?

Some of them will answer that it is because we live in a democracy, and in a democracy the majority of citizens have a legal right to dictate the terms on which we all must live, including who is to benefit from my efforts and how my money will be spent.

Well, I am here to say you are wrong. You do not have the right to decide how I will work because you can't. I work by using my mind. And my mind does not function because someone passed a law saying "it must." You cannot legislate creativity. You cannot mandate ability. You cannot force me to think. You can destroy me. You can pass laws which so burden me that I am finally unable to function.

The idea that it is in the country's best interest to force some men to help others is called socialism. And as history attests, it is a ruinous folly. There is an alternative. You can realize the impossibility of forcing me to help anyone, including myself. You can leave me and my business alone. Thank you very much. I appreciate it.

Mr. MAVROULES. Thank you very much. Are you ready for some questions, Mr. Murphy?

Mr. MURPHY. Yes, sir.

Mr. MAVROULES. I just want to inform Mr. Gallagher that we do have an Acquisition and Reform Committee, and we have held hearings in Washington, to deal with many of the comments that you had made in your testimony. As a matter of fact, Secretary Packard, who has done a magnificent job, has made recommendations to the Congress. And one of the areas that he wants to propose legislation, and that Dennis and I are both going to propose for legislation on the floor, would be the new acquisition Under Secretary working under the Secretary of Defense. He would take care of most of the problems that you have been referring to because the bureaucracy is killing us. It is ruining us. And it is going to ruin you, as a small business man. So we are trying to do that under the new procurement reform policy.

I might suggest to you, Mr. Nerone, that—and I appreciate your testimony—that if after the meeting I can talk with you a couple of minutes, I can refer you to a person back in Washington who probably can help you with some of your problems on an individual basis.

Mr. NERONE. Thank you.

Mr. MAVROULES. Now, Mr. Murphy, go ahead, please.

Mr. HERTEL. I know all about seniority, and you are the chairman, but we made a promise that we would be done by 4 and we're pretty close. They have a group coming in at 4:30, they have to set up this room differently, and they have let us run over.

So let me suggest, first of all, that I agree with you. These people have been——

Mr. MAVROULES. Superb.

Mr. HERTEL [continuing]. Superb witnesses, and have been so frank. They've almost got us on the money and time because they were so direct and so frank. But since we have such a small group, I think we have plenty of time left this afternoon to talk individually with people outside the room while they set it up.

Mr. MAVROULES. Sure.

Mr. MURPHY. Could we get to a couple of questions from the chairman?

Mr. MAVROULES. I want to ask you some questions. We agreed to have you come on the panel. As a rule, we do not do that, but——

Mr. MURPHY. Do what?

Mr. MAVROULES. As a rule, once we set up a panel, we do not allow others to come on and testify. But you were a late entry and we want to listen to your testimony.

Mr. MURPHY. Mr. Chairman, I didn't know about this meeting until this morning.

Mr. MAVROULES. Perfectly all right. We have no problem.

Now, if you are talking about Government—and I guess we would talk a little ideology, you and I. I didn't come 700 miles to be lectured to, to be very honest with you. But I am here to listen to you. But if you are going to talk about Government involvement and trying to help others then I've got to ask you some questions. I repeated here this afternoon on more than one occasion, on the private-public ratio, which is good for this country and puts people to work.

If, indeed, we are not going to be able to do that for the small business person of this country, are you saying to me that I don't have the right, as Government, to help people with their medical problems? Do I not have the right, as Government, to help our young people get a better education, to guarantee a greater security and a greater economy for our country? Are you saying that, also? I would assume.

Mr. MURPHY. Do you want me to answer?

Mr. MAVROULES. Please.

Mr. MURPHY. You, sir, have that right. You do not have that right to force me to help those people.

And may I ask you what you consider the purpose of Government, of the Federal Government in this country? What is the purpose of this Government?

Mr. MAVROULES. To guarantee your national security. And we're not going to get that until we have a good basis of education, and to guarantee to every man and woman in this country an opportunity for an education if they're not able to do it on their own; to guarantee to every person in this country some kind of medical assistance if they cannot do it on their own, because this is a great democracy. This is the greatest country in the world, and I think we lead the way for all nations throughout the world.

Would you disagree with me on that, Mr. Murphy?

Mr. MURPHY. Mr. Chairman, I agree that we are a Federal republic. A Federal republic means that we operate under a Federal Constitution. You show me where in the Federal Constitution it is my duty to help and educate other people in this country, under the Constitution.

Mr. MAVROULES. Let me ask you a question. I think this is a good debate and I think it's healthy. If you have a young man or woman who wants to go on to higher education, I think that is their right under the Constitution; and financially they cannot afford it; if they work 10 jobs they can't afford it, what am I supposed to do, as part of Government, to guarantee them an education? Just throw them by the wayside? Just throw them aside and to hell with them?

Mr. MURPHY. You now have millions of people going to Washington and saying "You must help me, you must help me, you must help me, you must help me." I don't——

Mr. MAVROULES. Please answer my question. What am I supposed to do with a young person who under the Constitution has a right to have an education?

Mr. MURPHY. I say that when you took an oath of office that oath said you would uphold the Federal Constitution. And I'd like you to show me where in that Federal Constitution you have to buy me a college education.

Mr. MAVROULES. I don't have to buy you a college education. I'm trying to guarantee you that you have a better education so that you can guarantee me greater national security and stability for my country.

Mr. MURPHY. Mr. Chairman.

Mr. MAVROULES. Yes, sir.

Mr. MURPHY. You're looking at a man that was 1 of 11 kids, and I was born and brought up and educated right in your backyard.

Mr. MAVROULES. Whereabout?

Mr. MURPHY. I went to Harvard. I was Newburyport, MA.

Mr. MAVROULES. That's my district.

Mr. MURPHY. Now, I went and got a job, and I work today. Now, you may say I don't know what I'm talking about. I borrowed a little money, private money, but I got through—I had no scholarships, nothing else. I'm not saying I'm Horatio Alger. But let me tell you something. There are jobs in this town going begging where young men can make $15,000 a year for a year or two on his own, and if he didn't send so much to Washington he would have more left to pay all of his educational expenses.

Mr. MAVROULES. Five years ago in the State of Michigan, they were desperate. Twenty percent of the population was unemployed in the State of Michigan.

Mr. MURPHY. Yes.

Mr. MAVROULES. People were losing their jobs in the State of Michigan. The automobile industry was falling apart here in Michigan. People couldn't keep their kids together and their families together here in Michigan. How was that father or mother to get financial assistance for their children to go to school unless it were from the Federal Government? Now, you answer that question.

Mr. MURPHY. If you would give them their own—let them keep their own money, let us——

Mr. MAVROULES. They couldn't find a job.

Mr. MURPHY. Many can find jobs. In other States or other areas, many can find private funds to borrow. We do not need Washington. I sign the checks each week, Mr. Chairman, of all the money that goes into that bank down here that goes to Washington. And what do we hear? Waste, bad Government contracts. How can the Government in its size——

Mr. MAVROULES. We are trying to do something about that, Mr. Murphy. But, you know something, you and I are two grown, mature people. I admire you for what you've done. Let me say this to you. If I've made it in life, I care about the guy out in the street.

Mr. MURPHY. I do, too.

Mr. MAVROULES. And I hope that you would, too.

Mr. MURPHY. I'm providing jobs to families.

Mr. MAVROULES. If the guy out in the street needs a little bit of help, that's a part of Government. That's the United States of America, and we have an obligation to help that person out in the street, a little bit more than the lengths that you want to go to.

Mr. MURPHY. And if you give me a free handout, do you know what is going to happen to me? Two days later I am going to be back. And you are the worse guy I ever knew because you won't give it to me the second time.

Can you not see? I must help myself. Now, if I want to help that other guy, if I want to give scholarships to kids, fine. But do not force me to give scholarships to me.

Mr. MAVROULES. I wish we had time. But you can ask Lee Iaccoca what he would have done without Government help, my friend; and he brought a business back and people are working today.

Mr. MURPHY. It was my tax dollars that helped that.

Mr. MAVROULES. That's right. And people are working. And, by the way, you did not lose a dime. You made money. When we bailed out Lockheed, the Government of the United States made $46 million in profit on the interest paid back to the Government by Lockheed. You know it and I know it.

Now, do you want to give me part of that money back?

Mr. MURPHY. No. But I want to ask you——

Mr. MAVROULES. Yes, sir?

Mr. MURPHY [continuing]. Who has the right to say he gets it, and I don't?

Mr. MAVROULES. Well, I guess we have a difference of opinion.

Mr. MURPHY. You want it in Washington.

Mr. MAVROULES. I appreciate what you have to say. Thank you very, very much.

I am going to declare the hearing closed. Thank you all very much. You have been very helpful. We will have all of this as part of the record.

When you come to Washington, I want to talk to you, Mr. Murphy.

Thank you, Mr. Murphy. The hearing is closed.

[Whereupon, the subcommittee adjourned, to reconvene subject to call of the Chair.]

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